

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

Applicant : Thomas G. Woolston                      Art Unit : 3625  
Serial No. : 09/253,014                              Examiner : Jeffrey A. Smith  
Filed : February 19, 1999                              Conf. No. : 5135  
Title : CONDUCTING AUCTIONS ON THE INTERNET

Commissioner for Patents  
P.O. Box 1450  
Alexandria, VA 22313-1450

**PATENT OWNER'S OPPOSITION TO THIRD PARTY REQUESTOR'S PETITION  
FOR ACCESS OR COPIES PURSUANT TO 37 CFR 1.14(h)**

Patent Owner, MercExchange, hereby opposes eBay's petitions of January 11, 2007, filed in U.S. Patent Application Nos. 09/253,014, 09/670,562, 09/557,617 and 09/203,286. Patent Owner respectfully requests that the petitions be denied. However, should the Office decide to grant the petitions and provide eBay with Patent Owner's confidential materials, Patent Owner respectfully requests that a representative of the Office first call the undersigned counsel of record before producing confidential files to eBay, so that the patent owner may seek an appropriate protective order from the court.

As the Office is aware, Patent Owner's patent enforcement action against adjudicated willful infringer eBay (captioned *MercExchange LLC v. eBay et al.*) has been proceeding for over four years and is now active again in the district court on remand from the United States Supreme Court and the Court of Appeals for the Federal Circuit (the "enforcement action"). See *eBay Inc. v. MercExchange, L.L.C.*, 126 S.Ct. 1837, U.S., 2006; *eBay Inc. v. MercExchange, L.L.C.*, 126 S.Ct. 1565 (Mem), U.S., March 17, 2006; *eBay Inc. v. MercExchange, L.L.C.*, 126 S.Ct. 733 (Mem), U.S., Nov. 28, 2005; *MercExchange, L.L.C. v. eBay, Inc.*, 188 Fed.Appx. 993, C.A.Fed., July 06, 2006; *MercExchange, LLC v. eBay, Inc.*, 401 F.3d 1323, C.A.Fed. (Va.),

CERTIFICATE OF MAILING BY FIRST CLASS MAIL

I hereby certify under 37 CFR §1.8(a) that this correspondence is being deposited with the United States Postal Service as first class mail with sufficient postage on the date indicated below and is addressed to the Commissioner for Patents, P.O. Box 1450, Alexandria, VA 22313-1450.

Date of Deposit

2/2/07

Signature

*Nancy Grant*

Nancy Grant

Typed or Printed Name of Person Signing Certificate

March 16, 2005; MercExchange, L.L.C. v. eBay, Inc., 68 Fed.Appx. 182, C.A.Fed., June 02, 2003; Mercexchange, L.L.c. v. eBay, Inc., Half.com, Inc., \_\_\_ F.Supp.2d \_\_\_, 2006 WL 3780606, E.D.Va., Decemer 18, 2006; Mercexchange, L.L.C. v. eBay, Inc., 275 F.Supp.2d 695, E.D.Va., August 06, 2003; MercExchange, L.L.C. v. eBay, Inc., 271 F.Supp.2d 789, E.D.Va., October 21, 2002; MercExchange, L.L.C. v. eBay, Inc., 271 F.Supp.2d 784, E.D.Va., October 21, 2002.

eBay has failed to inform the Office that the exchange of confidential materials in the enforcement action is governed by a mutually agreed upon protective order and a recent order of the District Court modifying the protective order. In addition, the District Court recently opened discovery between the parties for the limited purpose of determining the remaining issues in the case consistent with the mandate. eBay is propounding document discovery requests under the order for the same confidential information it is seeking from the USPTO and the Patent Owner is objecting to its request. See Attachment 1: Protective Order; Attachment 2: Recent order of the court; Attachment 3: eBay document request and our objections.

eBay's petition should be denied because (1) it circumvents the mutually agreed upon confidentiality provisions of the protective order; (2) it exceeds the scope of the District Court's order; and (3) eBay has failed to demonstrate that MercExchange made "threatening representations to the media" or any other purported "special circumstances" in this case.

Patent owner will not engage eBay's ad hominem, false and highly misleading re-casting of the dispute. The Office is well aware of the facts of the case and its high visibility as noted by the extensive efforts of the United States Solicitor's Office and the Department of Justice in the United States' amicus curiae brief supporting respondent (MercExchange) and its support of the issuance of a permanent injunction in this matter. See Attachment 4: Brief For The United States As Amicus Curiae Supporting Respondent.

eBay has failed to demonstrate why it needs the requested extraordinary relief from the Office and could not get that same relief from the courts. Indeed, if eBay were entitled to confidential materials from Patent Owner's confidential patent files, then the provisions of the

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Attorney's Docket No.: 13466-002002.

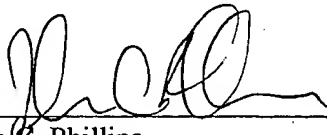
protective order would govern and provide that this information be produced to outside attorney-eyes only.<sup>1</sup>

Patent Owner respectfully requests the Office to deny eBay's Petition for Access and afford the courts the opportunity to resolve ongoing discovery disputes under the protections provided by the adversarial system.

Please apply any charges or credits to Deposit Account No. 06-1050.

Respectfully submitted,

Date: 2/2/07

  
\_\_\_\_\_  
John C. Phillips  
Reg. No. 35,322

Fish & Richardson P.C.  
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<sup>1</sup> Moreover, eBay's outside attorney already has Patent Owner's confidential pending patent materials under the provisions of the protective order for the validity portion of the '265 and '176 trial. Discovery is now closed on that issue and can only be reopened by the court.


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CERTIFICATE OF SERVICE

I hereby certify that on this 2<sup>nd</sup> day of February, 2007, I caused a true and correct copy of the foregoing PATENT OWNER'S OPPOSITION TO THIRD PARTY REQUESTOR'S PETITION FOR ACCESS OR COPIES PURSUANT TO 37 CFR 1.14(h) to be served via U.S. mail, postage prepaid, addressed as follows:

Jay B. Monahan  
eBay Inc.  
2145 Hamilton Avenue  
San Jose, CA 95125

  
\_\_\_\_\_  
John C. Phillips



For PTO Use Only  
Do Not Mark in This Area

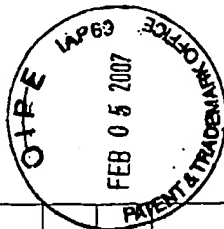
Attorney's Docket No. 13466-002002	Express Mail Label No.	Mailing Date February 2, 2007
Application No. 09/253,014	Filing Date February 19, 1999	Attorney/Secretary Init JCP/nsg

Title of the Invention

CONDUCTING AUCTIONS ON THE INTERNET

Applicant  
Thomas G. Woolston

Enclosures  
Other: Patent Owner's Opposition to Third Party Requestor's  
Petition for Access or Copies Pursuant to 37 CFR 1.14(h)



IN THE UNITED STATES DISTRICT COURT  
FOR THE EASTERN DISTRICT OF VIRGINIA  
Norfolk Division

MERCEXCHANGE, L.L.C.,

Plaintiff,

v.

Civil Action No. 2:01-CV-736

eBAY INC., HALF.COM, INC., and  
RETURNBUY, INC.,

Defendants.

**[PROPOSED] STIPULATED PROTECTIVE ORDER**

To expedite the flow of discovery material, facilitate the prompt resolution of disputes over confidentiality, and to protect information of a kind whose confidentiality is properly protected under Rule 26(c) of the Federal Rules of Civil Procedure, pursuant to the Court's authority under Rule 26(c), and with the consent of the parties, IT IS HEREBY ORDERED:

**1. APPLICABILITY OF THIS PROTECTIVE ORDER.**

This protective Order ("Order") shall govern the production of all information, documents and things, which are subject to disclosure in discovery or submitted to the Court in this action, that a party or non-party has in its possession, custody or control. Information, documents and things designated under this Order shall be used solely for purposes related to the subject matter of this litigation and not for any other purpose. This Order applies with equal force to all information, documents and things derived from such information, documents and things designated under this Order, including but not limited to, copies, summaries, and abstracts of the designated material.

**ATTACHMENT**

## **2. DESIGNATION OF MATERIAL.**

a. Any party or non-party that produces or provides protected material or information, documents or things in this litigation may designate such material as either "CONFIDENTIAL" or "CONFIDENTIAL - ATTORNEY'S EYES ONLY" by labeling or marking that material or information in the manner described below in paragraphs 6 and 8. Such a designation of information, documents or things shall constitute a representation that the party or non-party, in good faith, believes that the designation is appropriate and that the material is entitled to the protection provided herein.

b. The "CONFIDENTIAL - ATTORNEY'S EYES ONLY" provision in this Order shall apply to information, documents or things produced or provided by a party in discovery or submitted to the Court in this action that a party or non-party has in its possession, custody or control, which information, documents or things contain the designating party's or non-party's non-public research, development, commercial or financial information, including without limitation testimony at depositions upon oral examination or upon written questions, answers to interrogatories, documents or things produced, information obtained from inspection of premises or things, and responses to requests for admissions. A designation of "CONFIDENTIAL - ATTORNEY'S EYES ONLY" shall be used only with certain limited materials that contain non-public highly sensitive or confidential trade secrets or other highly sensitive research, development, commercial or financial information of the designating party. A designation of "CONFIDENTIAL" shall be used for the purpose of protecting other non-public information of the designating party.

**3. NON-DISCLOSURE AND NON-USE.**

No information, documents or things designated as "CONFIDENTIAL" or "CONFIDENTIAL -- ATTORNEY'S EYES ONLY" may be disclosed to any person except with the prior written consent of the party or non-party originally designating the information, documents or things, or except as hereinafter provided in this Order. Nothing contained in this Order shall affect the right of the producing party to disclose or use for any purpose the information, documents or things produced and/or designated by it as "CONFIDENTIAL" or "CONFIDENTIAL -- ATTORNEY'S EYES ONLY."

**4. PERMISSIBLE DISCLOSURE OF CONFIDENTIAL MATERIAL.**

"CONFIDENTIAL" material may be disclosed only to the following persons, unless this Court rules that there may be further disclosure:

a. Outside counsel of record for the parties to this litigation and employees in each outside counsel's law firms whose functions require access to CONFIDENTIAL material; provided, however, that under no circumstances shall any person who accesses such material participate, during the course of the litigation and for a period of five years following the final resolution of the litigation, in patent application preparation or patent prosecution activities on behalf of any of the parties involved in this litigation; and, in the case of plaintiff MercExchange, LLC, this will also include patent application preparation or patent prosecution activities on behalf of the inventor of the patents in suit, Thomas G. Woolston. Should outside counsel be required to disclose to the U.S. Patent and Trademark Office any CONFIDENTIAL information accessed pursuant to this Order, such counsel shall promptly notify the party or other person that designated the information as CONFIDENTIAL prior to disclosing such information;

b. One party representative to be designated by each of the following entities who has signed an undertaking in the form of Exhibit A to this Order: MercExchange, LLC, Half.com, Inc., ReturnBuy, Inc., and eBay Inc. Any such representative shall not be involved in patent application preparation or patent prosecution activities on behalf of a party. Should any such representative be required to disclose to the U.S. Patent and Trademark Office any CONFIDENTIAL materials accessed pursuant to this Order, such representative shall promptly notify the party or other person that designated the information as CONFIDENTIAL prior to disclosing such information. The parties agree that Thomas G. Woolston cannot be designated as a party representative under this paragraph;

c. Any person (i) who appears as an author, sender, addressee or other recipient on the face of a document and is not otherwise shown prior to such disclosure not to have received the document, (ii) who has been shown to have already seen the document or the information therein (unless that person has only seen the document or information in violation of this Order), or (iii) who participated in any meeting or communication to which the document refers;

d. Non-party experts or independent consultants engaged by outside counsel or the parties to assist in this litigation, provided that each non-party expert or independent consultant has signed an undertaking in the form of Exhibit A attached to this Order before receiving discovery materials protected by this Order. The party proposing to disclose the "CONFIDENTIAL" material to an expert or consultant shall, before disclosing the material to the expert or consultant, submit to counsel for all other parties (1) the expert or consultant's resume, and (2) a description of the relevant employment of the expert or consultant, including a listing of companies and individuals for whom the designated expert or consultant has been employed or consulted with within the preceding five (5) years. Unless any counsel notifies

opposing counsel of its objections to any expert or consultant proposed under this paragraph, including the grounds of the objection, within five (5) business days after service of this information, counsel may disclose "CONFIDENTIAL" materials to that person. If any counsel objects to an expert or consultant under this paragraph, the party objecting to the disclosure to the expert or consultant may, by motion noticed within five (5) business days after notice of the objection, ask the Court to decide whether the expert or consultant may receive "CONFIDENTIAL" material. If a motion is filed, the proposed expert or consultant shall not receive any "CONFIDENTIAL" material unless and until the Court orders that such disclosure may be made;

e. Any other person to whom the parties stipulate in writing and who signs an undertaking in the form of Exhibit A attached to this Order before receiving discovery materials protected by this Order;

f. An officer or employee of the United States District Court for the Eastern District of Virginia who is directly concerned with carrying out this action and any other person designated by the clerk;

g. Qualified persons taking testimony involving such designated material and necessary stenographic and clerical personnel employed thereby (including video technicians); and

h. Vendors with whom counsel of record for the parties to this litigation have contracted for purely clerical functions, such as the copying of documents or the creation of demonstrative exhibits.

**5. PERMISSIBLE DISCLOSURE OF "CONFIDENTIAL - ATTORNEY'S EYES ONLY" MATERIAL.**

"CONFIDENTIAL - ATTORNEY'S EYES ONLY" material may be disclosed only to those qualified persons identified in paragraphs 4(a), 4(c), 4(d), 4(e), 4(f), 4(g) and 4(h).

**6. METHOD OF DESIGNATION OF DOCUMENTS.**

a. General: For purposes of this Order, the term "document" shall have the full meaning ascribed to it in Federal Rule of Civil Procedure 34, whether produced pursuant to the disclosure requirements of the Federal Rules of Civil Procedure, a Court Order, subpoena, by agreement, or otherwise. Such documents include interrogatory answers, responses to requests for admissions, deposition transcripts and exhibits, pleadings, motions, affidavits, and briefs that quote, summarize, or contain information entitled to protection under this Order.

b. Documents: A party or non-party producing information may designate such information under this Order by producing copies of the documents marked with a legend reading "CONFIDENTIAL" or "CONFIDENTIAL - ATTORNEY'S EYES ONLY." Such legends shall be placed upon the first page of each document containing such material and upon each page within such document.

Upon request, documents or things shall be made available for an initial inspection by counsel for the requesting (receiving) party prior to the furnishing party producing copies of selected items. In such cases, only counsel those persons identified in paragraph 4 shall be permitted access to the documents or things, prior to the designation of those documents or things as "CONFIDENTIAL" or "CONFIDENTIAL - ATTORNEY'S EYES ONLY" pursuant to the terms of this Order. Such initial inspection shall not constitute a waiver of confidentiality with respect to any documents or things so inspected. Information so inspected shall be maintained as "CONFIDENTIAL" or "CONFIDENTIAL - ATTORNEY'S EYES ONLY" until

the documents are designated by the producing party, at which time the new designation shall govern.

c. **Magnetic Media Documents:** Where information is produced in a magnetic medium (such as a floppy diskette or tape), the cartridge, reel, or medium container shall be marked with the appropriate notice. Where such physical notice is impracticable, the notice required by this Order may be provided in writing simultaneous with, or prior to, the production of the electronically-stored information.

d. **Physical Exhibits:** The confidential status of a physical exhibit shall be indicated by placing a label on said physical exhibit marked with the appropriate notice.

e. **Third Party Materials:** Any third party from which materials are sought in connection with this action shall be provided with a copy of this Order and notified of the opportunity to designate materials under it. Thereafter, material furnished by a third party will be:

i. Treated as "CONFIDENTIAL" or "CONFIDENTIAL - ATTORNEY'S EYES ONLY" for a period of ten (10) business days from the date of production;

ii. At any time before the tenth business day following the date of production, any party to this litigation may specifically designate third party material as it deems appropriate pursuant to this Order. A party who designates third party material must promptly notify in writing all other parties to this litigation of such designation and must include a copy of the third party material, properly marked with such notification. Once such third party material has been specifically designated as "CONFIDENTIAL" or "CONFIDENTIAL - ATTORNEY'S EYES ONLY" pursuant to this paragraph, the remaining provisions of this Order respecting confidential material shall apply;



iii. If third party material has not been specifically designated as "CONFIDENTIAL" or "CONFIDENTIAL -- ATTORNEY'S EYES ONLY" by the third party, or by a party within the ten day period, the third party material will lose its temporary "CONFIDENTIAL" or "CONFIDENTIAL -- ATTORNEY'S EYES ONLY" designation and will have no designation.

#### **7. CANCELLATION OF DESIGNATION.**

A receiving party may request the designating party to redesignate "CONFIDENTIAL" or "CONFIDENTIAL -- ATTORNEY'S EYES ONLY" material. Such request shall be by written notice to counsel for the designating party. The written notice shall particularly identify the subject matter or document designated "CONFIDENTIAL" or "CONFIDENTIAL -- ATTORNEY'S EYES ONLY" that the receiving party seeks to have redesignated. The parties shall work together in good faith to resolve all redesignation requests on an informal basis. If the dispute cannot be resolved informally within five (5) business days, a motion for further disclosure or reclassification may be filed with the Court. Pending the Court's determination of any motion contesting a confidential designation, the material shall be deemed "CONFIDENTIAL" or "CONFIDENTIAL -- ATTORNEY'S EYES ONLY" as indicated by the designating party. Thereafter, the material shall be treated in accordance with the Court's Order.

#### **8. HANDLING MAGNETIC MEDIA.**

If a party produces a magnetic version of any information, and such information is designated as "CONFIDENTIAL" or "CONFIDENTIAL -- ATTORNEY'S EYES ONLY," it should be produced according to the following procedures with regard to the protection of that magnetic media:

a. No copy of the original magnetic media produced ("Original Media") shall be made except as provided in subparagraphs (b) and (c) below (a "copy" would include copying or transferring all, or part, of the magnetic data to another media, such as a diskette or hard disk, except for placement on a server where access to the copy is limited to persons authorized under this Order, or for backups made for disaster recovery purposes);

b. Two hard copies of the Original Media may be made. Those hard copies must be marked with the same confidentiality legend as the Original Media in accordance with paragraph 6 of this Order. Additional copies may be made only as necessary for use at depositions, hearings, court filings or trial in accordance with the provisions of this Order,

c. Each party must maintain an internal log of any person who handled the Original Media or receives a magnetic copy of the information contained on the Original Media ("Internal Log");

d. Within sixty (60) days of the conclusion of the litigation:

i. The Original Media must be returned to the producing party; and

ii. Each person whose name appears on the Internal Log and counsel must sign a declaration that shall be produced to the producing party certifying that:

(a) to the best of that person's knowledge, the Original Media has been returned to the producing party; and

(b) every copy, whether whole or partial, of the Original Media has been deleted in its entirety, including the use of a disk utility program, such as Norton Utilities or its equivalent, to rewrite the free disk space so that deleted files may not be recovered.

**9. CONFIDENTIAL INFORMATION IN DEPOSITIONS.**

a. A deponent may be shown during a deposition, and examined about, documents and information designated as "CONFIDENTIAL" or "CONFIDENTIAL -- ATTORNEY'S EYES ONLY" under this Order if the deponent already knows the protected information contained therein, is identified as an author, sender or addressee on the document, or is or has been employed by a party who knows that information, or is an outside expert or consultant and counsel has, if necessary, complied with paragraph 4(b).

b. Deponents shall not retain or copy portions of the transcript of their depositions that contain protected information not provided by them or the entities they represent.

c. A deponent who is not a party or a representative of a party shall be furnished a copy of this Order at the time of service of the notice of deposition or subpoena pursuant to which the deponent is to appear before being asked to produce potentially confidential information.

d. Parties and deponents may, at any time during the deposition or within ten (10) business days after receipt of the hard copy transcript, designate portions of the testimony for protection under this Order. This designation period may be shortened for good cause shown, either by stipulation of the parties or by further Order of the Court. Prior to expiration of this designation period, the entire deposition transcript (with the exception of the exhibits to the transcript) which bear a different designation will be treated as "CONFIDENTIAL -- ATTORNEY'S EYES ONLY." Exhibits to the deposition transcript will be treated in accordance with whatever designation was given those materials, if any, at the time of their production or, if not previously produced, at the time of the deposition. Confidential information within the deposition transcript shall be designated by identifying the pages and lines containing

such information as "CONFIDENTIAL" or "CONFIDENTIAL – ATTORNEY'S EYES ONLY," and by forwarding such designations to the Court Reporter, to counsel for the parties, and to any other person known to have a copy of the transcript.

e. If no party or deponent timely designates information in a deposition transcript in accordance with this paragraph, then none of the transcript (with the exception of the exhibits) will be protected as "CONFIDENTIAL" or "CONFIDENTIAL – ATTORNEY'S EYES ONLY" under this Order. Exhibits to the deposition transcript will be treated in accordance with whatever designation was given those materials, if any, at the time of their production or, if not previously produced, at the time of the deposition.

f. Nothing in this section shall be construed to prevent a deponent from reviewing the entirety of his deposition transcript for the purpose of making any necessary and permitted corrections of that transcript.

#### **10. CLIENT CONSULTATION.**

Nothing in this Order shall restrict any counsel from advising its client with respect to this action; and from relying in a general way upon an examination of material designated pursuant to this Order in giving such advice; provided, however, that in giving such advice and communicating with the client, counsel shall not disclose the contents of any "CONFIDENTIAL" or "CONFIDENTIAL – ATTORNEY'S EYES ONLY" material.

#### **11. FILING**

Submission of designated material to the Court shall be as follows:

a. A party who wishes to lodge or file any paper, pleading or exhibit containing designated material shall state on the first page of the pleading containing such material that the pleading contains such material.

b. A party who lodges or files any paper, pleading or exhibit containing designated material shall submit it to the Court in a sealed envelope or other appropriate sealed container that shall bear the caption of this case, an indication of the nature of the contents of the sealed envelope or other container, and a legend as follows:

RESTRICTED DOCUMENT -- FILED SUBJECT TO COURT ORDER. THE PAPERS IDENTIFIED ABOVE AND CONTAINED IN THIS ENVELOPE HAVE BEEN DESIGNATED AS CONFIDENTIAL MATERIAL, ARE SUBJECT TO A PROTECTIVE ORDER ISSUED BY THE COURT, AND MAY NOT BE EXAMINED, DISPLAYED, REVEALED, OR COPIED EXCEPT BY THE COURT, OR PURSUANT TO COURT ORDER.

**12. USE OF "CONFIDENTIAL" MATERIAL AT HEARINGS OR AT TRIAL.**

Subject to the Federal Rules of Evidence, documents and other information designated under this Order may be offered in evidence at trial or any court hearing, provided that the proponent of the evidence gives notice, reasonably sufficient to allow any confidentiality to be preserved, to counsel for the party or other person that designated the information. Any party may move the Court for an Order that the evidence be received in camera or under such other conditions as are necessary to prevent inappropriate disclosure. The Court will then determine whether the proffered evidence should continue to be protected under this Order and, if so, what protection, if any, may be afforded to such information at the hearing or at trial.

**13. SUBPOENA BY OTHER COURTS OR AGENCIES.**

If a third party, another court or an administrative agency subpoenas or Orders production of documents or information designated for protection under this Order which a party has obtained under the terms of this Order, such party shall promptly notify the party or other person that designated the information of the pendency of such subpoena or Order.

**14. NO ADMISSIONS.**

a. The designation of and/or acceptance of information, documents or things marked as "CONFIDENTIAL" or "CONFIDENTIAL -- ATTORNEY'S EYES ONLY" materials by any party or non-party shall not constitute an admission or concession that any such designation is appropriate.

b. Any party challenging a designation of material as "CONFIDENTIAL" or "CONFIDENTIAL -- ATTORNEY'S EYES ONLY" may move this Court for an Order, as specified in paragraph 7 above, that the designated information, documents or things shall not be protected. If such a motion is made, nothing in this Order shall alter any burden of proof that would otherwise apply in determining whether the information, documents or things are within the scope of Federal Rule of Civil Procedure 26(c)(7). Any information, documents or things covered by the motion shall be protected until the motion is decided.

**15. INADVERTENT DISCLOSURE OF PRIVILEGED OR CONFIDENTIAL INFORMATION.**

a. The inadvertent or unintentional disclosure by the producing party of privileged information or confidential information which it believes should have been designated as "CONFIDENTIAL" or "CONFIDENTIAL - ATTORNEY'S EYES ONLY," regardless of whether the information was so designated at the time of the disclosure, shall not be deemed a waiver in whole or in part of the party's claim of privilege or confidentiality, either as to the specific information disclosed or as to any other information relating thereto or on the same or related subject matter.

b. If a party through inadvertence produces or provides discovery of any privileged information or confidential information without labeling, marking or designating it as "CONFIDENTIAL" or "CONFIDENTIAL-ATTORNEY'S EYES ONLY," the producing party

must give written notice to the receiving party or parties within twenty (20) business days following such inadvertent production that the information, document, or thing is privileged or "CONFIDENTIAL" or "CONFIDENTIAL-ATTORNEY'S EYES ONLY." If the producing party gives written notice that the information, document, or thing is privileged, counsel for the receiving party will promptly return such inadvertently produced information, and all copies thereof, to counsel for the producing party within three (3) days of written notice of the inadvertent production. If the producing party gives written notice that the information, document, or thing is "CONFIDENTIAL" or "CONFIDENTIAL-ATTORNEY'S EYES ONLY," the receiving party or parties shall treat such information, document, or thing as "CONFIDENTIAL" or "CONFIDENTIAL - ATTORNEY'S EYES ONLY" from the date such notice is received.

c. Disclosure of such information, document or thing prior to receipt of such notice shall not be deemed a violation of this Order. However, if prior disclosure of such information, document, or thing was made to anyone not authorized to have access to such material under this Order, those persons to whom disclosure was made must be promptly advised that the material disclosed to them is privileged or "CONFIDENTIAL" or "CONFIDENTIAL - ATTORNEY'S EYES ONLY" and must be treated in accordance with this Order.

#### 16. EXCEPTIONS.

This Order shall not prevent or prejudice any party from applying to the Court for relief from this Order or for further or additional protective Orders, or from agreeing with the other party to a modification of this Order, subject to this Court's approval.

**17. RETURN OF DOCUMENTS AFTER DISPOSITION OF THIS CASE.**

a. The provisions of this Order shall not terminate at the conclusion of this action.

Upon agreement of all counsel of record or within sixty (60) days after this action finally terminates, either because a settlement agreement has been executed or the case is dismissed, the time to appeal expires, or the appellate mandate issues after an appeal, whichever event shall occur first, any party or other individual who has received materials designated under this Order shall either return all "CONFIDENTIAL" or "CONFIDENTIAL - ATTORNEY'S EYES ONLY" materials, including all copies, abstracts, summaries, or other documents containing information derived from the designated materials (but excluding any materials, which in the judgment of receiving counsel, are work product materials in counsel's possession, custody, or control), to the producing party, or shall certify that the materials were destroyed; provided, however, that one outside counsel of record for each party may retain one copy of all "CONFIDENTIAL" or "CONFIDENTIAL - ATTORNEY'S EYES ONLY" materials, including all court papers, hearing or trial exhibits, and deposition exhibits, solely for reference in the event a dispute arises over the use of information subject to this Order or over compliance with the final judgment or settlement in this action. Termination of this action is defined as being the effective date of a settlement agreement entered into by the parties, or if the case is dismissed or judgment is entered by the Court, the date when the time to appeal expires without an appeal having been filed, the date when an appellate mandate finally disposing of the case issues following an appeal, or the date when no further appeal is available, whichever occurs first.

b. Contemporaneous with the return of documents or certification of their destruction after the termination of this action, receiving counsel shall also provide, at the



producing party's request, copies of all undertakings in the form of Exhibit A which were signed pursuant to the terms of this Order.

**18. NOTICE.**

All notices required by this Order are to be served via facsimile with confirmation by regular mail to the appropriate attorney(s) at Hunton & Williams and Cooley Godward LLP. The date by which a party receiving a notice shall respond, or otherwise take action, shall be computed from the date indicating that the facsimile was received. However, any notice transmitted on a Saturday, Sunday, federal holiday or after 5:30 p.m. Eastern Standard Time or Eastern Daylight Time shall be deemed to have been received on the next business day. Any of the notice requirements herein may be waived in whole or in part, but only in writing signed by an attorney for the designating party.

**19. NO IMPLIED WAIVER.**

This Order shall not be construed as an agreement by any person to supply any document, as a waiver by any person of the right to object to the production of any document, or as a waiver of any claim of privilege with regard to the production of any document.

**20. CUSTODY OF CONFIDENTIAL INFORMATION.**

a. Information, documents or things designated as "CONFIDENTIAL" or "CONFIDENTIAL - ATTORNEY'S EYES ONLY" shall be maintained at outside counsel's facilities. Information, documents or things designated as "CONFIDENTIAL" or "CONFIDENTIAL - ATTORNEY'S EYES ONLY" may also be maintained at an expert's or consultant's facilities if such expert or consultant has been identified and approved pursuant to paragraph 4(d) above.

b. Information, documents or things designated as "CONFIDENTIAL" or "CONFIDENTIAL - ATTORNEY'S EYES ONLY" by eBay, Inc., Half.com, Inc., or ReturnBuy, Inc. shall not be electronically or otherwise transmitted, maintained, stored or located at the facilities of MercExchange, L.L.C. Information, documents or things designated as "CONFIDENTIAL" or "CONFIDENTIAL - ATTORNEY'S EYES ONLY" by MercExchange, L.L.C. shall not be electronically or otherwise transmitted, maintained, stored or located at the facilities of eBay Inc., Half.com, Inc., or ReturnBuy, Inc.

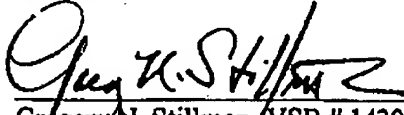
c. The provisions of paragraph 20(b) apply to briefs, affidavits, declarations and expert reports to the extent that they contain "CONFIDENTIAL" or "CONFIDENTIAL - ATTORNEY'S EYES ONLY" information.

**21. MODIFICATION OF ORDER.**

The Court may modify this Order at any time upon a showing of good cause.

Dated: March 4, 2002

HUNTON & WILLIAMS

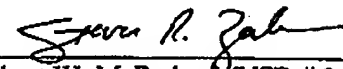
  
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PURSUANT TO STIPULATION, IT IS SO ORDERED.

Dated: 3/8/02

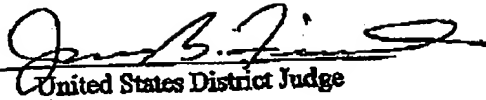
  
United States District Judge

EXHIBIT A

I, \_\_\_\_\_, declare under penalty of perjury under the laws of the United States of America that:

1. My address is: \_\_\_\_\_

\_\_\_\_\_

2. My present employer is: \_\_\_\_\_

\_\_\_\_\_

3. My present occupation or job description is: \_\_\_\_\_

\_\_\_\_\_

I HEREBY CERTIFY AND AGREE that I (a) have read and understood the terms of the protective order ("Order") in the matter of *MercExchange, L.L.C. v. eBay Inc. et al.*, pending in the United States District Court for the Eastern District of Virginia, Civil Action No. 2:01-CV-736, (b) will not use or disclose to anyone any of the contents of any "CONFIDENTIAL" or "CONFIDENTIAL - ATTORNEY'S EYES ONLY" information designated under the Order except for purposes explicitly allowed by the Order, and (c) agree to be bound by the terms and conditions of the Order.

If I have been retained as an independent expert or consultant pursuant to paragraph 4(d) of the Order, I understand that I am to retain all copies of any of the materials that I receive which have been designated under the Order in a container, cabinet, drawer, room or other safe place that limits access to the materials and that all copies are to remain in my custody until I have completed my duties, whereupon the copies are to be returned to outside counsel or destroyed as specified in the Order. I acknowledge that the return or subsequent destruction of such materials shall not relieve me from any of the continuing confidentiality obligations imposed upon me by the Order.

Dated: \_\_\_\_\_

Signed: \_\_\_\_\_

**UNITED STATES DISTRICT COURT  
EASTERN DISTRICT OF VIRGINIA  
Norfolk Division**

**MERCEXCHANGE, L.L.C.,**

**Plaintiff,**

**v.**

**Civil Action No. 2:01cv736**

**eBAY, INC. and HALF.COM, INC.,**

**Defendants.**

**ORDER AND OPINION**

On November 17, 2006, the court conducted a hearing to address four motions filed by eBay, Inc. and Half.com, Inc. (collectively "eBay"): (1) "Motion to Strike New & Irrelevant Evidence"; (2) "Motion Strike Nahan Declaration"; (3) "Motion for Leave to Submit Motion to Enforce the Court's Protective Order"; and (4) "Motion to Enforce Court's Protective Order." For the reasons set out herein, the court **DENIES** both eBay's motion to strike new evidence and motion to strike the Nahan declaration; however, such ruling requires that both eBay and MercExchange be afforded the opportunity to perform limited discovery in order to update the record to the present time. Additionally, the court **GRANTS** eBay's motion for leave to submit the protective order motion and **GRANTS** in part, and **DENIES** in part, the substantive protective order motion.

**I. Factual and Procedural Background**

In an effort to avoid repeating a detailed depiction of the facts and procedural posture of the instant litigation, the limited background pertinent to the instant motions is as follows: subsequent to the grant of summary judgment in favor of eBay based on a finding of invalidity on

**ATTACHMENT**

**2**

the asserted claims of the '051 patent and a jury verdict awarding damages to MercExchange based on eBay's infringement of the '265 patent, on August 6, 2003, this court entered an order and opinion denying MercExchange's motion for an injunction.<sup>1</sup> MercExchange, L.L.C. v. eBay, Inc., 275 F. Supp. 2d 695 (E.D. Va. 2003). On appeal, the Federal Circuit vacated this court's grant of summary judgment on the '051 patent and reversed the denial of MercExchange's motion for a permanent injunction. MercExchange, L.L.C. v. eBay, Inc., 401 F.3d 1323 (Fed Cir. 2005). The Supreme Court granted certiorari to address the proper standard for entry of a permanent injunction and ultimately vacated the Federal Circuit's injunction ruling, defining the traditional four-part equitable test as the proper standard for the injunction calculus in patent cases. eBay Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837 (2006).

This matter has now been remanded to this court for consideration of MercExchange's renewed motion for a permanent injunction, as well as for an eventual trial on the '051 patent. The two primary motions presently under consideration by the court are: (1) MercExchange's renewed motion for a permanent injunction; and (2) eBay's motion to stay the proceedings in light of the Patent and Trademark Office (PTO) reexamination of both the '265 and '051 patents. The four motions that are addressed in this order are secondary motions that are relevant to this court's consideration of the motion for an injunction and motion to stay. Because the court previously denied MercExchange's motion for an injunction in an order dated August 6, 2003, the court's references to "new" evidence or "recent" developments refer to occurrences subsequent to this court's August 6, 2003, ruling, whereas references to "backfilled" evidence

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<sup>1</sup> In short, the '051 patent covers auction style transactions where prospective buyers bid on an item whereas the '265 patent covers fixed price transactions such as eBay's "buy-it-now" sales option where the seller sets a fixed purchase price.

refer to facts that existed as of August 6, 2003, yet were not made part of the record.

## **II. eBay's Motion to Strike New and Irrelevant Evidence**

eBay's motion to strike was filed in response to numerous exhibits, including expert declarations, filed by MercExchange in support of its renewed motion for a permanent injunction.<sup>2</sup> Although eBay conceded at the hearing on this matter that injunctive relief's prospective nature requires the court to consider present circumstances in determining whether or not to grant an injunction, eBay contends that MercExchange has improperly submitted numerous exhibits seeking to backfill the record and re-litigate issues already decided by this court. Furthermore, eBay challenges the fact that two of the expert declarations submitted as exhibits to MercExchange's motion were submitted by previously undisclosed experts. As to the portions of MercExchange's exhibits that relate to recent factual developments, consisting primarily of MercExchange's business relationship with uBid, Inc. (uBid), eBay contends that such evidence is duplicative and irrelevant.

In contrast, MercExchange contends that it is not trying to backfill the record, but rather, the portions of the exhibits discussing prior events are merely included to present a factual background that is relevant to this court's decision as to whether or not to enter an injunction. With respect to the previously undisclosed experts, MercExchange argues that the legal standard applicable to the court's injunction decision has been called into question by eBay and that such declarations were submitted to clarify the irreparable harm that MercExchange will suffer in case the court concludes that a presumption of irreparable harm no longer exists. Finally, as to

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<sup>2</sup> It should be noted from the outset that eBay has also filed voluminous exhibits in support of its motion to stay.



uBid, MercExchange argues that such evidence is both relevant and significantly different from evidence previously advanced, and thus, is not duplicative.

Although the parties disagree on virtually every factual and legal issue relevant to the instant matter, they agree that the decision as to whether to “reopen the record” on remand lies squarely within this court’s discretion. See United States v. Com. of Va., 88 F.R.D. 656, 662 (E.D. Va. 1980) (recognizing that it is “well-established that, in the absence of error affecting the introduction of evidence at trial, the decision whether to reopen the evidence at a later stage of the proceedings rests with the trial judge”). Although the court’s exercise of such discretion is dependant upon a careful case-by-case analysis, the type of relief sought on remand unquestionably has a significant impact on the court’s decision as prospective equitable relief, such as an injunction or a stay of the proceedings, necessitates that the court consider the facts as they exist at the time of remand and not as they existed several years in the past. See Lyons Partnership, L.P. v. Morris Costumes, Inc., 243 F.3d 789, 799 (4th Cir. 2001) (“A prospective injunction is entered only on the basis of current, ongoing conduct that threatens future harm.”) (emphasis added). The current facts are so vital to the court’s decision when such form of relief is sought as the court is not only charged with determining the equitable relief appropriate on the date of the court’s order, but is also expected to fashion relief that appears appropriate for extension into the future; such task can hardly be faithfully completed in reliance on a record that is nearly three and half years old and established prior to a significant factual development. See Continental Airlines, Inc. v. United Airlines, Inc., 277 F.3d 499, 503 (4th Cir. 2002) (remanding for reconsideration of an injunction involving airport security screening equipment and recognizing that, “on remand, the district court and the parties will undoubtedly have to deal with [the ramifications of September 11th] in considering any prospective relief”); see also Direx

Israel, Ltd. v. Breakthrough Medical Corp., 952 F.2d 802, 819 (4th Cir. 1991) (“[W]e reverse the grant of the injunction herein and remand the case for further proceedings consistent with the rulings herein, without prejudice to the right of the plaintiff to premise its motion on new or changed circumstances.”); Huminski v. Corsones, 396 F.3d 53, 94 (2d Cir. 2005) (“Upon remand, the district court should consider whether, under present circumstances, permanent injunctive relief is required and, of course, the terms of any such injunction.”).

Based on the prospective nature of the relief sought, as well as the significant time lapse subsequent to this court’s denial of MercExchange’s original motion for an injunction, as set forth in greater detail below, the court denies eBay’s motion to strike the exhibits submitted in support of MercExchange’s renewed motion for an injunction. First, such evidence is not improper in the absence of a formal motion; second, the majority of such exhibits do not appear to be an attempt to improperly backfill the record and to the extent that such exhibits are in conflict with the court’s prior factual findings they will be disregarded; and third, information relating to MercExchange’s business relationship with uBid is not duplicative nor untimely. Because the court is willing to accept submissions by both parties that update the court on factual developments occurring after 2003, the court will permit limited discovery in order to afford the parties the traditional protections of the adversarial system.

**A. MercExchange’s failure to file a written motion to reopen the record does not require that MercExchange’s exhibits be stricken.**

eBay’s motion to strike first seeks to have MercExchange’s exhibits stricken on procedural grounds, arguing that new evidence is not properly before the court both because MercExchange failed to file a formal motion to reopen the record and because the opinions of both superior courts failed to suggest that the record be reopened on remand. First, from a legal

standpoint, eBay fails to cite any caselaw directly on point suggesting that such new evidence must be stricken in absence of formal motion by MercExchange. Additionally, eBay's allegation that MercExchange failed to file such motion is hypocritical in light of the fact that eBay also failed to file a motion to reopen the record prior to submitting recent PTO reports and other factual exhibits in support of its motion to stay. Second, from a practical standpoint and as conceded by eBay, common sense dictates that a dispute over prospective relief requires consideration of the facts as they exist at the time of the hearing, not as they existed over three years ago, and this court does not require a superior court to instruct it to apply such common sense requirement. Furthermore, although MercExchange did not file a formal motion seeking to reopen the record, it is clear from the transcript of a telephone status conference conducted by this court on July 28, 2006, that MercExchange announced its intent to introduce additional evidence reflecting factual developments occurring subsequent to trial. The following exchange occurred during such call:

Mr. Stillman (MercExchange):

In terms of scheduling, obviously time is of the essence with respect to our request for injunctive relief. But nonetheless, we would like the opportunity to supplement the record, the evidentiary record, on that request to bring it current, to make the Court aware of what MercExchange has been about in the three plus years since the jury entered its verdict, and to get some guidance from you about scheduling and how we would go about doing that.

The Court:

All right. Mr. Randall.

Mr. Randall (eBay):

Your Honor, our view is that based on the re-exam proceedings – and the re-exam was initially granted in June of 2004, so it's been going on for two years. There have been two significant rejections of all claims. . . . So we are asking that the Court first consider our motion to stay.

(July 28, 2006 Conf. Call p.6). The excerpt cited above not only establishes that the court and both parties understood that MercExchange would be submitting exhibits reflecting recent

factual developments in conjunction with its renewed motion for an injunction, but also highlights the fact that eBay's motion to stay relies almost exclusively upon recent factual developments, that is, the PTO reexamination proceedings. As a result, the court, in its discretion, concludes that reopening the record for the limited purpose of admitting evidence relevant to the parties' motion for an injunction and motion to stay and targeted at the period subsequent to August 6, 2003, is proper notwithstanding the fact that a formal motion was not filed by MercExchange.

- B. The court will disregard the portions of exhibits attempting to introduce facts predating August 6, 2003, that were not previously made part of the record and those portions attempting to recast the prior record in a manner inconsistent with this court's findings of fact.**

As stated above, the court's decision to reopen the record for the limited purpose of permitting the parties to update the court on factual developments occurring subsequent to this court's August 2003 order does not permit the parties to backfill the record by presenting evidence that was previously available yet not advanced either at trial or in support of MercExchange's initial motion for an injunction.<sup>3</sup> Likewise, the court's decision to reopen the record does not permit the parties to recast the prior record in a manner inconsistent with the findings of fact associated with the court's denial of MercExchange's original motion for an injunction. Notably, significant portions of the declarations challenged by eBay advance facts and opinions aimed at proving that MercExchange intended to commercialize its inventions from

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<sup>3</sup> As discussed below in Part III, the one exception to the August 6, 2003, cutoff date is that the court, in its discretion, will permit the parties to investigate the fraud alleged by MercExchange with respect to eBay's meeting with Kenneth Nahan and the introduction of the Newman video. The court permits such inquiry even though the pertinent facts predate the court imposed cutoff date because eBay produced the Newman video shortly before trial and after the close of discovery; thus, MercExchange may not have previously been permitted sufficient time to fully investigate such matter.

their infancy even though this court's prior findings suggest otherwise. Furthermore, any impropriety contained in such declarations is compounded by the fact that eBay has not had the opportunity to depose the individuals in relation to their newly submitted declarations.<sup>4</sup>

For example, MercExchange has submitted a recent declaration of Thomas Woolston, MercExchange's president, that purports to document MercExchange's history from its founding until the present. Although the court is willing to consider the portions of such report that document factual developments occurring subsequent to August 6, 2003, the portions of the declaration advancing Mr. Woolston's portrayal of events prior to such time should have been submitted, if at all, either at trial or in support of MercExchange's original motion for an injunction. Similarly, although the recently submitted expert declaration of Larry Evans, who testified at trial on behalf of MercExchange, permissibly cites trial testimony, it repeatedly offers the opinion that "[f]rom the outset, Mr. Woolston sought to commercialize his patents" (Evans Decl. ¶ 32); such conclusion appears to vary from, and may even be in contravention of, this court's prior finding that "the evidence of the plaintiff's willingness to license its patents, its lack of commercial activity in practicing the patents, and its comments to the media as to its intent with respect to enforcement of its patent rights, are sufficient to rebut the presumption that it will suffer irreparable harm if an injunction does not issue." MercExchange, 275 F. Supp. 2d at 712.<sup>5</sup>

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<sup>4</sup> As previously mentioned, two of the expert declarations were submitted by experts not previously identified by MercExchange.

<sup>5</sup> Set forth below is a more complete quote from this court's August 6, 2003, order and opinion discussing MercExchange's lack of commercial activity. The order stated: The defendants next argue that there was evidence adduced at trial proving that the plaintiff is willing to license or sell its patents. On this point, the defendants are correct. Substantial evidence was adduced at trial showing that the plaintiff does not practice its inventions and exists merely to license its patented technology to others. Indeed, the plaintiff has made numerous comments to the media before,

Although the Supreme Court concluded that neither this court nor the Federal Circuit “correctly applied the traditional four-factor framework that governs the award of injunctive relief,” eBay Inc., 126 S. Ct. at 1840, remand permits MercExchange the opportunity to argue that applying the “correct” legal framework to the previous record, as supplemented by interim factual developments, an injunction is warranted; it does not provide the opportunity to recast the prior record. To clarify, the undisturbed record led this court to conclude that prior to 2003, MercExchange exhibited a “willingness to license its patents” a “lack of commercial activity in practicing the patents” and that its “numerous comments to the media before, during, and after this trial indicat[e] that it did not seek to enjoin eBay but rather sought appropriate damages for the infringement.” MercExchange, 275 F. Supp. 2d at 712. Although MercExchange has every right to argue that such factual findings, applied to the proper legal test, warrant an injunction, or, that such factual findings when considered in light of recent developments, both factual and legal, warrant an injunction, it will not be presented the opportunity to challenge such factual findings. Thus, MercExchange may argue that this court was legally incorrect in concluding that

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during, and after this trial indicating that it did not seek to enjoin eBay but rather sought appropriate damages for the infringement. The Federal Circuit has observed that “the lack of commercial activity by the patentee is a significant factor in the calculus” of whether the patentee will suffer irreparable harm absent an injunction. High Tech Medical Instrumentation, Inc. v. New Image Indus., Inc., 49 F.3d 1551, 1556 (Fed. Cir. 1995). In the case at bar, the evidence of the plaintiff’s willingness to license its patents, its lack of commercial activity in practicing the patents, and its comments to the media as to its intent with respect to enforcement of its patent rights, are sufficient to rebut the presumption that it will suffer irreparable harm if an injunction does not issue. Moreover, the plaintiff never moved this court for a preliminary injunction. If it believed that it was suffering irreparable harm by the defendants’ continued infringement of its patents, such a motion would have been appropriate. This fact, while certainly not dispositive of the issue, lends additional weight in support of the defendants’ arguments that the plaintiff will not be irreparably harmed absent an injunction.

MercExchange, 275 F. Supp. 2d at 712 (footnote omitted).

a willingness to license or lack of commercial activity suggest that an injunction is not warranted; however, it may not attempt to argue that it was never willing to license or that it never had a lack of commercial activity practicing the patents.

In order to preserve the admissible portions of MercExchange's submissions, as well as avoid the delay associated with ordering that MercExchange's experts rewrite their reports without the portions that attempt to recast facts predating August 6, 2003, the court will simply disregard any opinion or argument seeking to re-litigate the court's prior factual findings.<sup>6</sup> The court in no way suggests that it will not entertain counsels' arguments as to how the previous record, established through trial and this court's prior injunction ruling, as well as any interim factual updates, should be applied to the correct legal framework; rather, the court will simply not reconsider its past factual findings regarding the time period prior to August 6, 2003. As a result, counsel for both parties are invited to refer to the prior record, as well as recent factual developments, and argue that such facts, when applied to the proper legal standard, warrant an injunction; however, the court will give no weight to arguments, opinions, or exhibits that attempt to add to, modify, or recast the court's prior factual findings.<sup>7</sup>

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<sup>6</sup> The court suggests that both parties re-familiarize themselves with this court's August 6, 2003, order prior to the hearing on the motion for an injunction and motion for a stay as the factual findings of the court dealing with the time period prior to August of 2003 remain undisturbed.

<sup>7</sup> Although the court does not condone the submission of declarations from previously undisclosed experts, the court recognizes MercExchange's justification for such submissions, namely, that the legal standard for issuing an injunction was in flux throughout the appeal of this matter and appears to remain uncertain today in that the Supreme Court did not expressly address whether the presumption of irreparable harm upon a showing of validity and infringement survives the Supreme Court's decision; however, the court does not believe that an expert primer on irreparable harm suffered by small companies whose patents are infringed offers any significant support for MercExchange's position. First, the Supreme Court cautioned the lower courts about avoiding categorical rules, and the expert declaration offered by Lori Pressman, one

**C. References to uBid are not duplicative nor untimely.**

As can be inferred from the discussion above, the court rejects eBay's contention that references to MercExchange's business relationship with uBid, a factual development occurring subsequent to August 6, 2003, are duplicative or untimely. First, such references are not untimely as MercExchange did not have a business relationship with uBid when the initial motion for an injunction was filed, and thus, evidence regarding uBid is not backfill of the record, but rather, is precisely the type of evidence updating the court on recent developments that is vital to the court's injunction calculus. See Lyons, 243 F.3d at 799 ("A prospective injunction is entered only on the basis of current, ongoing conduct that threatens future harm.") (emphasis added). Second, although eBay effectively demonstrates that the non-exclusive license entered into between uBid and MercExchange is not particularly lucrative and appears similar to MercExchange's past non-exclusive licenses, the declaration of Timothy Takesue, the Merchandising Executive Vice President of uBid, highlights the fact that the terms of such contract are not very favorable to MercExchange primarily because eBay is infringing on MercExchange's '265 patent and that an exclusive license<sup>8</sup> or merger has been contemplated but

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of the experts not previously disclosed, presents virtually no information with respect to MercExchange nor relevant post trial developments, but rather, presents an opinion painted with a very broad brush suggesting that small companies holding patents will always be irreparably harmed absent the right to exclude. Similarly, portions of the other expert reports, such as the Evans declaration, make similar generalizations concluding: "An individual inventor or small company that lacks the financial resources to take on the big guy in high-stakes patent litigation should not be forced to grant compulsory licenses" (Merc. Injunct. Memo Ex.17 ¶ 103). Again, the court will not strike such declarations in light of the fact that MercExchange will be given the opportunity to conduct limited discovery, including depositions of some of such experts if it chooses; however, the court will afford little weight to exhibits espousing categorical rules or seeking to highlight the woes of the small patent holder while ignoring this court's prior findings.

<sup>8</sup> eBay argues that the terms of several of MercExchange's prior licenses would preclude MercExchange from granting an exclusive license to uBid. Such argument, even if correct, ignores the reality that uBid appears to place virtually the entire value of an exclusive license to



has not come to fruition due to eBay's infringement. The sworn claims that eBay's infringement on the '265 patent is directly hindering MercExchange's business opportunities distinguishes uBid from most of MercExchange's past licencing partners, as the trial record establishes that some of MercExchange's past difficulties commercializing its patents were not a result of eBay's infringement. Furthermore, sworn testimony from a uBid executive establishing that a merger between MercExchange and an internet auction website that directly competes with eBay was contemplated, yet foreclosed as a result of eBay's infringement distinguishes the business relationship with uBid from past licencing agreements. Thus, uBid is not unique based on the terms of the current non-exclusive license, but rather, the potential for an exclusive license or merger and the apparent value of such relationship to both uBid and MercExchange if an injunction prevented eBay from offering "buy-it-now" sales on its website while uBid, a direct competitor, was able to offer such option on its website.<sup>9</sup> As a result, the court will not strike MercExchange's submissions advancing evidence with respect to uBid; however, as previously mentioned, the court will reopen the record in a limited manner in order to permit eBay to perform depositions and further investigate the MercExchange/uBid business relationship.

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the '265 patent on the ability to utilize such patent while preventing eBay from doing so. Thus, even if technically MercExchange could not grant uBid an exclusive license to the '265 patent covering every field of use, a nearly exclusive license that prevents MercExchange from granting further licenses to uBid's competitors, especially to eBay, ultimately appears to have the same effect and value as what MercExchange and uBid refer to as an "exclusive license."

<sup>9</sup> The recurring issue underlying nearly every dispute presently before the court is whether or not eBay has designed around the '265 patent; if it has, then an exclusive license is of virtually no value to uBid, nor is an injunction of much value to MercExchange. Although eBay has offhandedly referred to its purported design around both in court and in its briefs, eBay appears to have failed to advance any evidence nor even make the express, yet uncorroborated, claim that it has in fact designed around the '265 patent.

**D. Although the court will permit additional discovery, such discovery is limited in scope and time.**

Although the court recognizes the necessity of updating the record with recent factual developments, the court will not permit the parties to backfill or recast facts in a manner inconsistent with this court's prior findings. However, even though portions of the challenged declarations plainly ignore this court's prior factual findings and at times advance opinions that appear more appropriate for counsel to argue, the court declines to strike such reports because the court recognizes, first, that its prior factual findings were limited, and second, that the expert reports generally do not attempt to backfill the record by adding new facts, but rather, merely cite trial testimony in an attempt to highlight MercExchange's version of pre-2003 events. Thus, rather than striking such reports, the court will simply disregard and give no weight to any portions of such reports that the court deems to be inconsistent with its prior factual findings.

In light of the court's decision not to strike such reports, nor strike references to uBid, the court must permit some form of discovery to ensure that the parties have a fair opportunity to investigate and challenge evidence advanced by the opposing party.<sup>10</sup> As discussed at the hearing on this matter, eBay relies on Lussier v. Runyon, 50 F.3d 1103 (1st Cir. 1995) for the proposition that "once the record is closed, a district court, absent waiver or consent, ordinarily may not receive additional factual information of a kind not susceptible to judicial notice unless it fully reopens the record and animates the panoply of evidentiary rules and procedural safeguards customarily available to litigants." Id. at 1105-06 (emphasis added). Adding some context to

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<sup>10</sup> Although MercExchange firmly opposes reopening discovery as doing so delays resolution of its motion for an injunction, it was MercExchange that submitted numerous expert reports, some nearly forty pages in length with hundreds of pages of exhibits, and a declaration in support of a new allegation that eBay committed a fraud on this court. The court's decision to consider such materials necessitates that eBay be permitted the opportunity to investigate them.

such quote, in Lussier the district court was “[d]issatisfied with the trial evidence” regarding the plaintiff’s future disability benefits, so the court, in an effort to accurately calculate plaintiff’s damages, ordered the parties to file a status report concerning certain disability payments that plaintiff would receive in the future. Id. at 1113. Plaintiff, “though objecting vigorously to the directive,” submitted some evidence relating to his interim disability payments, whereas the defendant offered no information. Id. Subsequently, the court, apparently exasperated with defendant’s failure to submit requested information, used the plaintiff’s forced submission to calculate the present value of plaintiff’s future disability benefits, reduced plaintiff’s damages based on such calculation, and “paid lip service” to the fact that it had “reopened the record.” Id. at 1113, 1115 n.16. On appeal, the First Circuit concluded that although the district court claimed to have reopened the record, its actions failed to approach the proper method of reopening the record as the court, “over the plaintiff’s objection, engaged in a unilateral pursuit of additional evidence without affording the parties the standard prophylaxis that generally obtains at trial . . . [including] the right to object to evidence, the right to question its source, relevance, and reliability, the right to cross-examine its proponent, and the right to impeach or contradict it.” Id. at 1115 n.16.

Although this court’s views are in alignment with the First Circuit’s, the court does not agree with eBay’s broad categorization of the Lussier opinion standing for the proposition that if the record is reopened, it must be reopened without limitation. Rather, Lussier espouses the proposition that a court, no matter what its motivations, may not undertake the unilateral pursuit of extra-record evidence nor under any circumstances consider evidence advanced by one party concerning disputed material facts that the opposing party is not presented an opportunity to challenge. Id. at 1113; see also Black v. TIC Investment Corp., 900 F.2d 112, 116 (7th Cir.

1990) (“Where new evidence is presented in a reply to a motion for summary judgment, the district court should not consider the new evidence without giving the movant an opportunity to respond.”). Such requirement is a “fundamental principle of our jurisprudence” as “[o]urs is a system that seeks the discovery of truth by means of a managed adversarial relationship between the parties, [and] [i]f we were to allow judges to bypass this system, even in the interest of furthering efficiency or promoting judicial economy, we would subvert this ultimate purpose.” Lussier, 50 F.3d at 1113-14. Thus, a district court may, in its discretion, “reopen the record” in a limited manner with respect to a targeted issue, so long as the parties are presented an equal and fair opportunity to investigate the facts and challenge the opposing party’s evidence through traditional adversarial means. See, e.g., Black, 900 F.2d at 116 (remanding and explaining that a late filed affidavit could either be considered or disregarded by the district court; however, if accepted, the court must afford the opposing party the opportunity to respond); Chamberlain v. Denny’s, Inc., 206 F.R.D. 418, 419-20 (D. Md. 2002) (permitting the plaintiffs to file an affidavit from an individual improperly omitted from a prior discovery request because “the evidence to be presented by the witness [tardily identified] was particularly significant and dealt with a key issue in the case”; however, because such individual “had not been previously identified as a witness in the case, the Court granted defendant the right to depose him and ascertain pertinent facts relating to his observations . . .”).

Here, the court’s denial of eBay’s motion to strike MercExchange’s exhibits necessitates that, in order to preserve the adversarial system, the court reopen the record and permit the parties additional time to perform limited discovery into the new evidence submitted to the court. As requested by eBay at the hearing on this matter, the parties are permitted to perform additional depositions as well as serve document requests; however, all discovery requests must be confined

to the investigation into events occurring subsequent to this court's denial of MercExchange's initial motion for an injunction. Furthermore, because the court's decision to reopen the record is not made without consideration of MercExchange's interest in a speedy resolution of its motion for an injunction and the extensive discovery previously conducted, the court will limit each party to five depositions, lasting no longer than six hours each, and all depositions must be concluded by March 2, 2007. Additionally, all document requests must be served no later than January 12, 2007, and objections or responses are due no later than February 2, 2006. In the event that discovery disputes arise, the parties must contact Magistrate Judge James Bradberry no later than February 6, 2007, to determine an expedited discovery dispute procedure. Such limited time-frame should be more than sufficient to afford the parties, which each have extensive legal teams spanning multiple law firms, adequate time to investigate the pertinent issues, yet at the same time will allow for a hearing on the motion for an injunction and motion to stay to be conducted in the near future. Following the conclusion of discovery, the parties will be permitted until March 16, 2007, to file a supplemental brief, not to exceed twenty pages, in support of its motion and in opposition of the opposing party's motion.<sup>11</sup> The court anticipates that such briefs will focus primarily on the updated discovery and the impact of such discovery on the pending motions.

The court's decision to limit discovery is permitted by Federal Rule of Civil Procedure

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<sup>11</sup> The court is cognizant of MercExchange's desire for the speedy resolution of its motion and the court begrudgingly permits the parties until March 2, 2007, to complete additional discovery, which, along with two weeks for supplemental briefing, delays resolution of this matter until at least March 16, 2007. The court originally intended to permit the parties a significantly shorter period to conduct discovery; however, due to the close proximity of the issuance of this order to the December holiday season, realistically, the court recognizes that neither the lawyers nor the deponents would be able to comply with such a schedule without modification.

26(b)(2) which states: "By order, the court may alter the limits in these rules on the number of depositions and interrogatories or the length of depositions under Rule 30. By order or local rule, the court may also limit the number of requests [for admission]." Fed. R. Civ. P. 26(b)(2). Thus, pursuant to such rule and in recognition of the already well-developed record, there will be no interrogatories and no requests for admission during the limited discovery period; however, as discussed above, the court will permit both eBay and MercExchange to perform five depositions and to serve document requests relevant to the time period beginning August 6, 2003. The propriety of the court's limits on discovery is further bolstered by the fact that eBay stated at oral argument that it was not seeking never-ending discovery, but intended on submitting document requests, as well as performing a limited number of depositions including corporate depositions of uBid, MercExchange, and possibly Altitude Capital.<sup>12</sup> Although MercExchange has not requested the right to conduct depositions or serve document requests, the court will permit each party the same discovery rights. To reiterate, the permissible discovery must relate to developments subsequent to August 6, 2003, that are relevant to MercExchange's motion for an injunction and eBay's motion to stay the proceedings.

### **III. eBay's Motion to Strike the Nahan Declaration**

eBay's challenge to the sworn declaration submitted by Kenneth Nahan prompted a separate motion to strike because such declaration was not filed in support of MercExchange's

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<sup>12</sup> The court sees minimal relevance in exploring the details of Altitude Capital's alleged capitalization of MercExchange because even if MercExchange recently received a multi-million dollar influx from such source, considering the totality of the circumstances and the damages at stake in this litigation, such fact appears to have little impact on the determination of whether or not an injunction should issue. However, the court will permit the parties to choose how to allocate their five permitted depositions, so long as the depositions seek to obtain information relating to events occurring subsequent to this court's August 6, 2003, order.

injunction motion, but rather, was filed as an exhibit to MercExchange's response in opposition to eBay's motion to stay the proceedings. MercExchange submits the Nahan declaration in support of its claim that, at trial, eBay perpetrated a fraud on the court and, therefore, is not deserving of a favorable ruling in equity. The fraud alleged by MercExchange involves eBay's failure to disclose that it had a meeting with Mr. Nahan prior to trial at which eBay was allegedly informed that the Newman video, an exhibit introduced by eBay at trial, was confidential. eBay contends that such claim is false, irrelevant, and untimely; furthermore, eBay denies all allegations of fraud.

eBay attempts to suppress the Nahan declaration based on arguments similar to those discussed in the previous section of this order, specifically, both that MercExchange did not file a motion seeking to reopen the record and that MercExchange previously had the opportunity to file such declaration or call Mr. Nahan as a witness and its failure to do so makes the declaration untimely. Additionally, eBay highlights the fact that, at trial, MercExchange challenged the admissibility of the Newman video and objected to statements suggesting that such video was public, making submission of the Nahan declaration duplicative and unwarranted.

MercExchange counters by pointing out that although the facts regarding eBay's meeting with Mr. Nahan may have previously been in existence, eBay did not produce the Newman video until after the close of discovery and eBay never informed MercExchange or the court of its meeting with Mr. Nahan. MercExchange contends that it is disingenuous for eBay to have concealed the confidential nature of the video, as well as its meeting with Mr. Nahan, and then fault MercExchange for failing to uncover such intentional concealment.

Along with the claims duplicative to the motion to strike the injunction exhibits, eBay also seeks to have portions of the Nahan declaration stricken for containing inadmissible

hearsay.<sup>13</sup> Furthermore, eBay contends that the Nahan declaration should be stricken because MercExchange failed to provide evidence corroborating Mr. Nahan's confidentiality claims.<sup>14</sup> In response to the hearsay claim, MercExchange argues that all statements made by eBay's counsel are not hearsay under Rule 801(d) of the Federal Rules of Evidence as they represent statements by a party opponent. With respect to the lack of corroboration, MercExchange contends that because it was eBay's burden at trial to prove that the Newman video was public, neither MercExchange or Mr. Nahan need to provide corroboration to establish the confidentiality of the video.

As discussed in detail in Part III above, the court will not strike any of MercExchange's exhibits, including the Nahan declaration, based on the lack of a formal motion to reopen the record. As to the timing of the Nahan declaration, eBay's failure to produce the Newman video until after the close of discovery supports MercExchange's claim that it never had the opportunity to fully investigate the facts surrounding the video. That being said, the Nahan declaration, submitted by MercExchange in opposition to eBay's motion to stay, appears to be rather far afield from the primary issues before the court, and although certainly relevant to the court's equity calculus, the court recognizes not only that the declaration includes hearsay, but that Mr. Nahan has minimal corroboration for his position and that MercExchange has submitted

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<sup>13</sup> Numerous paragraphs of the Nahan declaration include references to what Mr. Nahan was told by counsel for both MercExchange and eBay. Additionally, two paragraphs contain information apparently relayed from eBay's counsel, to Mrs. Nahan, to Mr. Nahan.

<sup>14</sup> MercExchange has provided what purports to be a control log and several sample unsigned confidentiality agreements in an attempt to corroborate Mr. Nahan's claims that the Newman video was maintained as confidential. eBay challenges the authenticity, relevancy and admissibility of such exhibits.



conflicting affidavits.<sup>15</sup> Considering which party carries the burden, although MercExchange is correct that at trial the burden was on eBay to prove that the video was in the public domain, thus potentially invalidating MercExchange's patents, at this stage in the proceedings it is MercExchange that is attempting to prove that eBay committed a fraud on the court, and therefore, it is MercExchange that carries the burden to establish not only that the video was in fact confidential, but that eBay knew it was confidential and represented otherwise to the court.

Based on the considerations discussed above, the court denies eBay's motion to strike the Nahan declaration as although MercExchange's allegation of fraud may be somewhat tangential to the primary issues before the court, it is true that if eBay has perpetrated a fraud on the court it is undeserving of a ruling in equity. The court does, however, recognize both that several statements within the Nahan declaration appear to be inadmissible hearsay and that MercExchange's evidence attempting to corroborate Mr. Nahan's statements is not compelling. Likewise, although the past Honicorp officers' affidavits, advanced by eBay, characterize the video as non-confidential, such affidavits suffer from a similar infirmity as the Nahan affidavit as portions are plainly hearsay. Therefore, as with the portions of the expert reports that the court deems improper, the court will give no weight to hearsay statements contained in any affidavit before the court and will give the weight the court deems appropriate to the portions of the declarations that are properly before the court.

In anticipation of the court's denial of eBay's motion to strike the Nahan declaration, eBay has requested both in its memoranda and at oral argument that, in that alternative, it be

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<sup>15</sup> eBay submits affidavits from Douglas Graham and Karen Bacon, past officers of Honicorp Inc. (Honicorp), Mr. Nahan's company. Such affidavits are offered in support of eBay's claims that the Newman video was not confidential and that eBay's counsel was informed prior to trial that the Newman video was not confidential.

afforded the opportunity to depose Mr. Nahan as well as file declarations in opposition of the Nahan declaration. However, as previously noted, eBay has in fact already filed two declarations in opposition of the Nahan declaration, and therefore, eBay's request to submit additional declarations is denied.<sup>16</sup> As for eBay's request to depose Mr. Nahan, the previous section of this order indicated that the court is permitting both parties the opportunity to perform five additional depositions and if eBay chooses to use one of its five depositions on Mr. Nahan, it may do so. Likewise, MercExchange is permitted to allocate two of its depositions to the two Honicorp officers that offered declarations in opposition of the Nahan declaration if it chooses to do so. The court clarifies that the issue regarding the Newman video is the only issue pre-dating the court's August 6, 2003, denial of MercExchange's injunction motion that the parties are permitted to investigate during discovery, and that such investigation is being permitted only as a result of eBay's tardy submission of the Newman video after the close of trial discovery.

#### **IV. eBay's Motion for Leave to Submit a Motion to Enforce the Protective Order**

Unlike eBay's motions to strike, which are directly related to the motion for an injunction and motion to stay, eBay's motion to enforce the court's protective order is somewhat discrete; thus, eBay properly filed a request to file such motion rather than simply filing it. Furthermore, although eBay was correct to request permission to file a motion to enforce the protective order, eBay's allegations with respect to the protective order are at least tangentially related to the two primary motions before the court because eBay alleges improper participation

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<sup>16</sup> Such declarations are attached as exhibits 18 and 20 to eBay's reply brief in support of its motion to stay. Exhibit 18 is a sworn statement offered by Douglas Graham, the president of Honicorp from 1991-1993 and it suggests both that the Newman video was not confidential and that Graham told eBay it was not confidential in March, 2003 (eBay Reply to Mo. to Stay Ex.18).

in the PTO reexamination proceedings; such proceedings are plainly pertinent to both the motion to stay and motion for an injunction. Additionally, if the court were to deny eBay leave to file such motion the court would potentially be permitting violations of the protective order to go unchecked. Finally, the parties have already fully briefed the motion to enforce the protective order, and thus, even though this court previously instructed the parties not to file additional motions, at this stage there is little justification for the court not to reach the merits of the fully briefed motion. Therefore, eBay's motion for leave to submit its motion to enforce the protective order is granted.

#### **V. eBay's Motion to Enforce the Protective Order**

On March 8, 2002, this court entered a stipulated protective order submitted by the parties; although the court did not draft such order, its final provision states that the court may modify the protective order "at any time upon a showing of good cause" (March 8, 2002 Order ¶ 21). eBay's instant motion to enforce the protective order was prompted by the fact that experts originally engaged by MercExchange to testify at the trial on this matter have made submissions to the PTO on behalf of MercExchange in support of the validity of the '265 and '051 patents. Such experts, prior to being permitted to view eBay's confidential business information, signed sworn statements indicating that they read and understood the terms of the protective order, agreed to be bound by the conditions of such order, and would not use or disclose any confidential information except for purposes explicitly allowed by the order. eBay contends that the protective order bars such experts from having any involvement in the PTO reexamination of the patents at issue in the instant litigation, whereas MercExchange contends that the paragraph of the protective order directed at outside experts does not bar such involvement. eBay's motion

seeks relief in three forms: first, eBay requests that this court order MercExchange's experts, Drs. Weaver, Palmer, and Frieder, to cease all participation in patent prosecution activities on behalf of MercExchange; second, that MercExchange be ordered to withdraw all declarations submitted to the PTO by such experts and all new or amended claims supported by such declarations; and third, that MercExchange maintain a log, for in camera inspection, of all documents relating to communications with, or analysis by, its experts regarding patent prosecution efforts.

After carefully considering the merits of eBay's motion, the court determines that MercExchange has not violated the terms of the protective order, and thus, it is not proper for this court to order MercExchange to withdraw any expert declarations or related claims.<sup>17</sup> However, the court also concludes that the spirit of the protective order suggests that experts who accessed eBay's confidential information should not be participating in the PTO reexamination of the very patents that constituted the core of the litigation such experts were involved. As a result, the court determines that there is "good cause" to modify the protective order to require that, from this point forward, any expert with prior access to eBay's proprietary information shall no longer participate in the PTO reexamination of any of the patents at issue in the instant litigation.<sup>18</sup> The court reaches such determination in spite of the fact that there has been no

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<sup>17</sup> For brevity's sake, the court avoids an extensive discourse into the textual analysis of the protective order and deems it sufficient to explain that although eBay is correct that the protective order states that under "no circumstances shall any person who accesses [confidential] material" participate in patent prosecution activities, MercExchange's position that the protective order's structure limits the application of such broad language to law firms and their employees is more persuasive than eBay's contention that it covers all individuals, including experts. (March 8, 2002 Order ¶ 4).

<sup>18</sup> MercExchange argues that much of the information previously marked as confidential became public at trial, thereby losing its confidential status. The court recognizes, however, that because summary judgment was granted on the '051 patent, vast amounts of proprietary information were not publicly displayed at trial. Likewise, even though the '265 patent was

showing that confidential information has been misused because the addition of fifty-two claims to one of the patents constituting the core of the instant litigation creates the very real potential for the unintentional misuse of confidential information.

The court's decision to prohibit MercExchange's trial experts from future involvement in the PTO reexamination is based on several factors balanced by the court including: (1) the apparent minimal burden on MercExchange to retain alternative experts who did not personally examine eBay's confidential information if future reports or consulting is necessary;<sup>19</sup> (2) the reality that the ex parte nature of the PTO reexamination process prevents eBay from effectively monitoring disclosures made by experts that viewed confidential information coupled with the fact that it is not within the province of this court to provide monitoring or oversight of submissions to the PTO; and (3) as several cases cited by eBay effectively demonstrate, it is oftentimes impossible for an individual, even with the noblest of intentions, to delineate between ideas that they may advance as a result of their own creation, and those influenced by past exposure to confidential information. The high risk of inadvertent disclosure of confidential information due to the difficulty in mentally segregating the origin of ideas,<sup>20</sup> as well as the

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litigated in open court, a significant amount of eBay's confidential information subject to review by MercExchange's experts was not revealed at trial. Therefore, any expert viewing any of eBay's information that remains confidential must cease involvement in the PTO reexamination.

<sup>19</sup> See, e.g., U.S. Steel Corp. v. United States, 730 F.2d 1465, 1468 (Fed. Cir. 1984) (recognizing that forcing the plaintiffs to rely on newly retained counsel "would create an extreme and unnecessary hardship"); Motorola, Inc. v. Interdigital Tech. Corp., No. 93-488-LON, 1994 U.S. Dist. LEXIS 20714, at \*15 (D. Del. Dec. 19, 1994) (unpublished) ("Courts have also considered the hardship to the client if counsel is disqualified or restricted in some manner.").

<sup>20</sup> In U.S. Steel Corp., the Federal Circuit explained: "Inadvertence, like the thief-in-the-night, is no respecter of its victims. Inadvertent or accidental disclosure may or may not be predictable. To the extent that it may be predicted, and cannot be adequately forestalled in the

inability of both eBay and this court to police experts' communications with the PTO, is precisely why the court believes that an absolute bar from participation in the reexamination of the very patents at the heart of the instant litigation is necessary.<sup>21</sup>

Although, as previously mentioned, it does not appear that MercExchange's experts have improperly relied upon eBay's proprietary information, the post-trial addition of fifty-two claims to the '051 patent creates a very real and expressly identifiable potential for misuse of confidential information as MercExchange attempts to redefine the scope of such patent and defend the validity of both the '051 patent and the '265 patent after preliminary PTO findings

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design of a protective order, it may be a factor in the access decision." 730 F.2d at 1468.

<sup>21</sup> Although MercExchange cites several cases in support of its contention that broad language in a protective order prohibiting involvement in patent prosecution for similar patents or in a similar field for a set number of years is disfavored, two significant factual distinctions exist between such cases and the instant matter. See, e.g., Trading Technologies Intern., Inc. v. eSpeed, Inc., No. 04 C 5312, 2004 WL 2534389, at \*1 (N.D. Ill. Sept. 24, 2004) (unpublished) (refusing to bar the plaintiff's attorney who is "primarily a litigator" from being involved in prosecuting patents on plaintiff's behalf for a specified number of years because: (1) such attorney is generally only "incidentally involved in patent applications" and "acts as an advocate, not as a drafter of specifications and claims"; and (2) the court had no reason to doubt that such attorney would "conscientiously keep in mind and act to uphold his professional obligations"); AFP Advanced Food Products LLC v. Snyder's of Hanover Mfg., No. Civ.A. 05-3006, 2006 WL 47374, at \*2 (E.D. Pa. Jan. 6, 2006) (unpublished) ("Barring AFP's attorneys from prosecuting similar patents for two years following this suit, without some tangible reason or good cause other than the general threat of inadvertent misuse of discovered materials, is the exact type of overly broad and generalized fear rejected in [various past federal cases]."). The two primary differences between the instant dispute and such cases are, first, that the cited cases involve barring lawyers from involvement in patent prosecution, not experts, and not only must a court presume a heightened level of ethical conduct on the part of lawyers as compared to experts, but also, requiring a party to replace counsel they have a longstanding relationship with creates a much greater burden than requiring a party to hire different experts. See Safe Flight Instrument Corp. v. Sundstrand Data Control, Inc., 682 F. Supp. 20, 23 (D. Del. 1988) ("[C]ounsel who are admitted to the Bar of this Court are officers of the Court and are bound by the Code of Professional Responsibility."). Second, the patent prosecution activities that eBay seeks to bar in the instant motion do not involve "similar patents" or future patents in a "similar field," but rather, involve the reexamination and addition of claims to the very patents constituting the core of the instant litigation.

suggest that such patents may be invalid. In In re Papst Licensing, GmbH, Patent Litigation, No. MDL 1278, 2000 WL 554219 (E.D. La. May 4, 2000) (unpublished), the court concluded:

[I]t is clear that the advice and participation of the Papst parties' counsel in preparation and prosecution of patent applications related to the patents in suit is an intensely competitive decisionmaking activity and would be informed by access to the Non-Papst parties confidential information. Counsel's ability to file new claims in existing and pending patents based on the confidential information discovered during the course of this litigation poses an unacceptable opportunity for inadvertent disclosure and misuse. Although the Court is confident that counsel for the Papst parties maintains the highest ethical and professional standards, the risk of inadvertent disclosure and misuse and the difficulty of distinguishing the source of the Papst parties' basis for filing new claims are great.

Id. at \*4 (emphasis added).<sup>22</sup> Similarly, in Mikohn Gaming Corp. v. Acres Gaming Inc., 50 U.S.P.Q.2d 1783 (D. Nev. 1998), the law firm representing the defendant in district court was also prosecuting patent applications on behalf of defendant that were "part of the very core of th[e] suit," and the court found that were such firm given access to plaintiff's proprietary technology it "would be in the 'untenable position' of having to either refuse his client legal advice on competitive design matters or violate the protective order's prohibition against revealing [plaintiff's] technical information." Id. at 1785-86. The court noted that "[n]o matter how much good faith [such lawyers] might exercise, it is unrealistic to expect that . . . knowledge of [plaintiff's] secret technology would not or could not influence the nature of his advice to [defendant]"; therefore, the court concluded that the defendant's patent prosecution firm could not view the plaintiff's confidential information.<sup>23</sup> Id. at 1786. Finally, in Motorola, Inc. v.

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<sup>22</sup> Notably, the quote from In re Papst Licensing talks only of counsel's "ability to file new claims" as part of the reexamination process, whereas here, new claims were in fact filed.

<sup>23</sup> This court is aware of the District of Maryland's recent decision in MedImmune, Inc. v. Centocor, Inc., 271 F. Supp. 2d 762 (D. Md. 2003), which permitted patent prosecution counsel to view the opposing party's confidential information during the course of discovery. However, the facts of MedImmune are inapposite from both Mikohn and the instant facts, and

Interdigital Tech. Corp., No. 93-488-LON, 1994 U.S. Dist. LEXIS 20714 (D. Del. Dec. 19, 1994) (unpublished), the district court noted that because the defendant's attorneys were currently prosecuting patent applications related to the very patents at issue in the lawsuit, if such attorneys were permitted to view plaintiff's "voluminous confidential information" than they "would have to constantly challenge the origin of every idea, every spark of genius." Id. at 14-15. The court characterized such segregation of ideas as a "sisyphean task, for as soon as one idea would be stamped 'untainted,' another would come to mind," and the "level of introspection that would be required is simply too much to expect, no matter how intelligent, dedicated, or ethical the [defendant's] attorneys may be." Id. at \*15. As a result, the court barred the defendant's lawyers and employees that viewed plaintiff's confidential information from participating in patent prosecution. Id. at 17-18.

Unlike Papst, Mikohn, and Motorola, here, the issue is not whether attorneys actively participating in patent prosecution may view confidential information;<sup>24</sup> rather, the issue is whether experts that previously participated in litigation as trial experts and accessed confidential

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were expressly recognized as such in the MedImmune opinion, which explained that, unlike Mikohn, there was no showing that "patent counsel was currently prosecuting patents on the exact same subject matter of the litigation." Id. at 775 n.14 (emphasis added). Furthermore, the instant matter is readily distinguishable from Interactive Coupon Marketing Group, Inc. v. H.O.T.! Coupons, LLC., No. 98 C 7408, 1999 WL 618969 (N.D. Ill. Aug. 9, 1999) (unpublished) which barred patent prosecution counsel from viewing confidential information because counsel "has represented and is likely to represent [the plaintiff] in the prosecution of numerous related patents, and . . . is deeply involved in representing the client in multiple, related infringement cases in the context of a fluid, developing technology." Id. at \*3 (emphasis added). Unlike Interactive Coupon, here, it is not past or potential future patent prosecution, nor merely "related" patents at issue, but rather, here, the court seeks to prevent experts that accessed eBay's confidential information from participating in the reexamination of the very patents constituting the core of the litigation.

<sup>24</sup> MercExchange has properly segregated trial representation and patent prosecution to two separate law firms.



information during the course of such engagement may later participate in the reexamination of the very patents they were retained to opine on. Although this court recognizes the difference between an expert's involvement and an attorney's involvement, including the differences in the ability to influence strategic decisionmaking, the court notes that segregating patent prosecution and patent litigation to two separate law firms would lose its intended purpose if consultants that qualify as experts in the field of claimed inventions were permitted to view an opposing party's confidential information, work closely alongside litigation counsel, and then subsequent to trial, crossover and work alongside patent prosecution counsel during the reexamination of the very same patents. Furthermore, here, the impropriety of such crossover is multiplied by the fact that MercExchange has added fifty-two claims to one of the patents at the core of the litigation. Although the court does not dispute MercExchange's legitimate desire to continue reexamination with aid from experts familiar with the facts of this case and the patents at issue, if, as MercExchange contends, its experts' involvement in the reexamination is truly limited to disputes about the scope of prior art and other matters plainly distinct from eBay's confidential information, than MercExchange will suffer little prejudice in being required to rely on alternative experts that have not accessed eBay's confidential information.

In summary, although MercExchange's construction of the previously entered protective order appears correct, the court at this time modifies such order to prohibit MercExchange's outside experts and independent consultants that viewed eBay's confidential information from any further involvement in the PTO reexamination of the patents subject to the instant litigation. Such remedy is "broad enough to protect [eBay's] confidential information, yet seeks to minimize the hardship to [MercExchange]" as the court's prohibition applies only to the patents at issue in the instant lawsuit. Motorola, 1994 U.S. Dist. LEXIS 20714, at \*18. Although

modifying the protective order based on good cause, the court denies eBay's request that any past submissions, or claims founded on such submissions, be ordered withdrawn from the PTO as the court is mindful of its responsibility not to disrupt the PTO's administrative proceeding, MercExchange's and eBay's interest in a timely resolution of both the instant litigation and the PTO reexamination, and the fact that MercExchange's experts' submissions were not in violation of the protective order as written. Furthermore, as suggested by the above findings, the court denies eBay's request that MercExchange maintain a log for in camera review of all expert submissions to the PTO, as past submissions were not improper, and future submissions will not occur in light of this court's ruling.

## **V. Conclusion**

Based on the prospective nature of the relief sought in MercExchange's motion for an injunction and eBay's motion for a stay of the proceedings, as well as the fact that both parties rely heavily on factual developments occurring subsequent to this court's denial of MercExchange's original motion for an injunction, the court deems it necessary to reopen the record and permit the parties to investigate recent factual developments through the adversarial process. Although the court recognizes that permitting the parties to perform additional depositions and submit document requests will delay the resolution of the pending motions, an apparent detriment to MercExchange, the court notes that it was MercExchange that chose to submit numerous expert declarations and other exhibits in support of its injunction motion, and MercExchange simply cannot have the benefit of the court considering such submissions without the associated detriment of eBay being permitted time to investigate them.

Although the court's decision to reopen the record is properly limited to developments

occurring after August 6, 2003, the date this court denied MercExchange's initial motion for an injunction, the court will permit inquiry into eBay's production of the Newman video in light of its pre-trial meeting with Kenneth Nahan. Although the facts regarding such matter predate August 6, 2003, the court recognizes that eBay produced the Newman video after the close of trial discovery and that MercExchange never had the opportunity to fully investigate such matter.

The court grants eBay's motion to file its motion to enforce the protective order; however, after considering the substantive motion, the court determines that MercExchange's experts have not in fact violated the protective order as written. However, after considering the briefs and oral arguments, the procedural posture of both this case and the PTO reexamination proceedings, and the intended goals of the protective order, the court agrees with eBay that trial experts and consultants that viewed eBay's confidential information should not be permitted to participate in the PTO reexamination proceedings of the very same patents at the heart of the litigation. As a result, the court, for good cause shown, modifies the protective order to require that, from this point forward, any non-party expert or outside consultant that viewed eBay's confidential information cease participation in the PTO reexamination of the patents at issue in the instant litigation.

In summary, both of eBay's motions seeking to strike newly submitted evidence are **DENIED**. As a result of such denial, the court **PERMITS** both parties until March 2, 2007, to perform additional discovery into eBay's knowledge and representations regarding the Newman video as well as all relevant factual developments occurring subsequent to August 6, 2003. As previously discussed, in recognition of the already well-developed record, there will be no interrogatories or requests for admission; however, both parties are permitted to conduct five depositions, each lasting no longer than six hours. Additionally, document requests may be

served by both parties no later than January 12, 2007, and objections or responses to such requests are due no later than February 2, 2007. Finally, each party is afforded until March 16, 2007, to submit a single supplemental brief in support of its motion and in opposition of the opposing party's motion; such brief is limited to 20 pages in length.

The court **GRANTS** eBay's motion for leave to submit the protective order motion and **GRANTS** in part, and **DENIES** in part, the substantive protective order motion. Specifically, the court **GRANTS** the portion of the motion requesting that experts that viewed eBay's confidential information be prohibited from further involvement in the PTO reexamination of the patents at issue in this litigation and **DENIES** the remainder of such motion.

The Clerk is **REQUESTED** to mail copies of this Order to counsel of record.

**IT IS SO ORDERED.**

/s/  
Jerome B. Friedman  
UNITED STATES DISTRICT JUDGE

Norfolk, Virginia  
December 18, 2006

IN THE UNITED STATES DISTRICT COURT  
EASTERN DISTRICT OF VIRGINIA  
Norfolk Division

MERCExchange, L.L.C.,

Plaintiff,

v.

eBAY INC. AND HALF.COM, INC.,

Defendants.

Case No. 2:01-CV-736

DEFENDANTS eBAY INC. AND HALF.COM, INC.'S REQUESTS FOR THE PRODUCTION OF  
DOCUMENTS AND THINGS TO PLAINTIFF MERCExchange, L.L.C.

ATTACHMENT

3

8. "Amazon" refers to Amazon.com and its parents, subsidiaries, affiliates, officers, principals, agents, divisions, departments, partners, predecessors, and successors thereof.
9. "MSN" refers to MSN and its parents, subsidiaries, affiliates, officers, principals, agents, divisions, departments, partners, predecessors, and successors thereof.
10. "Christie's" refers to Christie's and its parents, subsidiaries, affiliates, officers, principals, agents, divisions, departments, partners, predecessors, and successors thereof.
11. "Yahoo" refers to Yahoo and its parents, subsidiaries, affiliates, officers, principals, agents, divisions, departments, partners, predecessors, and successors thereof.
12. "ChanelAdvisor" refers to ChanelAdvisor and its parents, subsidiaries, affiliates, officers, principals, agents, divisions, departments, partners, predecessors, and successors thereof.
13. The "Newman video" refers to the video describing the Honicorp system, which was narrated by Edwin Newman, and bears a copyright date of 1992.
14. The term "MercExchange Patents" refers to the patents in suit, all patent applications pending before the U.S. Patent and Trademark Office that are owned by or assigned to MercExchange, and all patents under reexamination that are owned by or assigned to MercExchange, including, without limitation, Reexamination Control Nos. 90/006,956; 90/006,984; and 90/006,957.
15. "The current lawsuit" refers to MercExchange, L.L.C. v. eBay Inc. and Half.com, Inc., which is currently pending in the Eastern District of Virginia.
16. The term "person" means any natural person and any other cognizable entity, including (without limitation) corporations, proprietorships, partnerships, joint ventures,

Pursuant to Federal Rule of Civil Procedure 34, defendants eBay Inc. and Half.com, Inc. ("eBay") hereby request that plaintiff MercExchange, L.L.C. ("MercExchange") produce for eBay's inspection and copying, each and every document and thing in its possession, custody, or control identified and described in the following Document Requests, such items to be produced at the offices of eBay's counsel, Skadden, Arps, Slate, Meagher, & Flom, 1440 New York Ave., NW, Washington, D.C. 20005, unless otherwise agreed.

**I. DEFINITIONS AND INSTRUCTIONS**

1. "MercExchange" refers to plaintiff MercExchange, L.L.C. and its parents, subsidiaries, affiliates, officers, principals, agents, divisions, departments, partners, predecessors, and successors thereof.

2. "eBay" refers to defendant eBay Inc. and its parents, subsidiaries, affiliates, officers, principals, agents, divisions, departments, partners, predecessors, and successors thereof.

3. "Half.com" refers to defendant Half.com, Inc. and its parents, subsidiaries, affiliates, officers, principals, agents, divisions, departments, partners, predecessors, and successors thereof.

4. The "Nahan patent" refers to U.S. Patent No. 5,664,111

5. "Altitude Capital" refers to Altitude Capital Partners and its parents, subsidiaries, affiliates, officers, principals, agents, divisions, departments, partners, predecessors, and successors thereof.

6. The term "the patents in suit" refers to U.S. Patent No. 5,845,265, U. S. Patent 6,085,176, and U.S. Patent No. 6,202,051.

7. "uBid" refers to uBid and its parents, subsidiaries, affiliates, officers, principals, agents, divisions, departments, partners, predecessors, and successors thereof.

consortiums, clubs, associations, foundations, governmental agencies or instrumentalities, societies, and orders.

17. The term "communication" means any transmission of information from one person to another by any means.

18. The phrases "relate to," "relating to," or "relates to" shall be construed to mean evidencing, constituting, referring to, comprising, illustrating, recording, memorializing, supporting, or discussing.

19. "Document" is used in the comprehensive sense set forth in Federal Rule of Civil Procedure 34(a) and refers to any document either dated after August 6, 2003 or related to developments or events occurring after August 6, 2003.

20. If you withhold any document because of a claim of privilege, set forth, in writing, the privilege claimed and the facts on which you rely to support the claimed privilege, and furnish a list identifying each document for which privilege is claimed, together with the following information as to each such document: a brief description of its nature and subject matter, including the title and type of document; its date; the name and title of the author(s); the name and title of the person(s) to whom the document is addressed including all persons who received copies; the name and title of the person(s) to whom the document was sent; the number of pages; and the request to which the document is otherwise responsive.



## **II. DOCUMENT REQUESTS**

### **REQUEST NO. 1**

All documents relating to all claims of alleged infringement by eBay or Half.com of any of the MercExchange patents.

### **REQUEST NO. 2**

All documents relating to any meetings, conversations, or correspondence between MercExchange and/or its attorneys and any inventor of the Nahan patent.

### **REQUEST NO. 3**

All documents relating to any investigation that MercExchange or its attorneys made of the Newman video.

### **REQUEST NO. 4**

All documents relating to Altitude Capital.

### **REQUEST NO. 5**

All documents relating to uBid.

### **REQUEST NO. 6**

All documents relating to any attempts by MercExchange or its attorneys or agents to license or sell, or offer to license or sell, any of the MercExchange patents, including, without limitation, MercExchange's attempts to enter into marketing or licensing arrangements with either Amazon, MSN, Christie's or Yahoo.

### **REQUEST NO. 7**

All documents relating to MercExchange's licensees, including, but not limited to, any communications between MercExchange and any MercExchange licensee.

**REQUEST NO. 8**

All state and federal tax returns, including, but not limited to, any amendments, filed by or on behalf of MercExchange from 2004 to the present date.

**REQUEST NO. 9**

All documents that relate to the ChannelAdvisor licensing agreement with MercExchange.

**REQUEST NO. 10**

All documents relating to any harm MercExchange has suffered or may suffer due to the absence or denial of an injunction against eBay or Half.com.

**REQUEST NO. 11**

All documents relating to MercExchange's corporate meetings, resolutions, or declarations, including, but not limited to, minutes of corporate meetings.

**REQUEST NO. 12**

All documents related to any attempt by MercExchange to commercialize or build any embodiment of any claim of any of the MercExchange patents.

**REQUEST NO. 13**

All documents relating to any ownership interest in or lien on any possible financial recovery from the current lawsuit.

**REQUEST NO. 14**

All documents relating to the amount and source of funds received by MercExchange from 2004 to the present date.

**REQUEST NO. 15**

Complete file histories for U.S. Patent Application Nos. 09/203,286; 09/253,014; 09/670,562; and 09/557,617.

Dated: January 12, 2007

By: 

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CERTIFICATE OF SERVICE

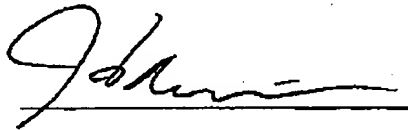
I hereby certify that I caused a true and correct copy of the foregoing DEFENDANTS EBAY INC. AND HALF.COM, INC.'S REQUESTS FOR THE PRODUCTION OF DOCUMENTS AND THINGS TO PLAINTIFF MERCEXCHANGE, L.L.C. to be served as follows this 12th day of January, 2007:

VIA HAND DELIVERY:

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**IN THE UNITED STATES DISTRICT COURT  
FOR THE EASTERN DISTRICT OF VIRGINIA  
Norfolk Division**

**MERCEXCHANGE, L.L.C.,**

**Plaintiff,**

**Case NO. 2:01-CV-736**

**v.**

**EBAY, INC., and HALF.COM, INC.,**

**Defendants.**

**PLAINTIFF MERCEXCHANGE, L.L.C.'S OBJECTIONS TO DEFENDANTS eBAY,  
INC. AND HALF.COM, INC.'S REQUESTS FOR DOCUMENTS AND THINGS**

Plaintiff MercExchange, L.L.C., by counsel and pursuant to Fed. R. Civ. P. 34 and Local Rule 26(c) of the United States District Court for the Eastern District of Virginia, serves the following Objections to the Requests for Production of Documents and Things propounded by Defendants eBay, Inc. and Half.com, Inc. ("eBay"). MercExchange incorporates by reference its previously asserted General and Specific Objections.

**GENERAL OBJECTIONS**

MercExchange hereby states the following objections that apply to all of the requests for documents:

MercExchange objects to all of the requests for documents on the ground that, in connection with eBay's overbroad definitions and instructions, they do not provide reasonable time for compliance and impose an undue burden in responding thereto.

MercExchange objects to all of the requests for documents, and the definitions and instructions pertaining thereto, to the extent that they seek information or documents that are protected by any applicable privilege or doctrine precluding disclosure, including, without

limitation, the attorney-client privilege, any jointly-held or common interest privileges, the work product doctrine, and/or documents or information prepared or obtained in anticipation of litigation.

MercExchange objects to all of the requests for documents, and the definitions and instructions pertaining thereto, to the extent they seek documents or information that are confidential or proprietary, and/or contain trade secrets of MercExchange or others, or documents and information restricted from dissemination because of confidentiality commitments with other entities.

MercExchange objects to all of the requests for documents, and the definitions and instructions pertaining thereto, as being overly broad, unduly burdensome and oppressive.

MercExchange objects to all of the requests for documents, and the definitions and instructions pertaining thereto, to the extent they seek documents or information not relevant to the limited issues pending before the Court and not reasonably calculated to lead to the discovery of admissible evidence. MercExchange further objects to the requests as exceeding the scope of discovery permitted by the Court's post-appeal Order and Opinion.

MercExchange objects to all of the requests for documents, and the definitions and instructions pertaining thereto, to the extent they seek to impose obligations beyond those imposed by the Local Rules of the United States District Courts for the Eastern District of Virginia, the Federal Rules of Civil Procedure, and/or other applicable law.

MercExchange objects to all of the requests for documents, and the definitions and instructions pertaining thereto, to the extent they seek documents or information already in eBay's possession, custody, or control.

MercExchange objects to all of the requests for documents, and the definitions and instructions pertaining thereto, to the extent they seek documents or information not within its possession, custody, or control.

MercExchange objects to all of the requests for documents, and the definitions and instructions pertaining thereto, to the extent they seek documents or information beyond what is available from a reasonable search.

MercExchange objects to all of the requests for documents, and the definitions and instructions pertaining thereto, to the extent they are not limited to a time frame relevant to the limited issues pending before the Court or to the time frame established by the Court's post-appeal Order and Opinion.

#### **OBJECTIONS TO DEFINITIONS AND INSTRUCTIONS**

1. MercExchange objects to the definition of "MercExchange" as overbroad and including additional entities and individuals that are not parties to this action.
2. MercExchange objects to the definitions of "Altitude Capital Partners," "uBid," "Amazon," "MSN," "Christie's," "Yahoo," and "ChannelAdvisor," as overbroad and including additional entities and individuals beyond those that would be reasonably calculated to lead to the discovery of admissible evidence within the scope of this Court's post-appeal Order and Opinion.
3. MercExchange objects to the definition of "Newman video" as vague, ambiguous, and argumentative.
4. MercExchange objects to the definition of "MercExchange Patents" as vastly overbroad and encompassing patents and patent applications having no relevance to this action or the limited issues pending before the Court.

5. MercExchange objects to definitions 16 through 19 to the extent that their literal application may render a document request overbroad and unduly burdensome.

6. MercExchange objects to instruction number twenty as imposing burdens beyond those required by the Federal Rules of Civil Procedure and the Local Rules for the United States District Court for the Eastern District of Virginia.

### **OBJECTIONS TO REQUESTS FOR PRODUCTION**

In addition to the general objections above, which apply to all of the requests, MercExchange makes the following specific objections:

#### **REQUEST NO. 1:**

All documents relating to all claims of alleged infringement by eBay or Half.com of any of the MercExchange patents.

#### **OBJECTION:**

In addition to the general objections, MercExchange objects to the request as vastly overbroad, not likely to lead to the discovery of admissible evidence in light of the limited issues before the Court, and as exceeding the scope of discovery permitted by the Court's post-appeal order. As worded, this request could literally apply to every document and pleading generated since the outset of this litigation. As such, the request imposes an undue burden on MercExchange in responding. There is an affirmed jury verdict that eBay and Half.com willfully infringed MercExchange's '265 Patent, and defendants have produced no evidence that they have ceased their infringement. MercExchange further objects to the request as vague and ambiguous with respect to "all claims of alleged infringement by eBay or Half.com."



MercExchange further objects to the request on the ground of the attorney-client privilege and work product doctrine.

**REQUEST NO. 2:**

All documents relating to any meetings, conversations, or correspondence between MercExchange and/or its attorneys and any inventor of the Nahan patent.

**OBJECTION:**

In addition to the general objections, MercExchange objects to the request on the ground of the attorney-client privilege and the work product doctrine. MercExchange further objects to the request on the ground that it is overbroad and not reasonably calculated to lead to the discovery of admissible evidence.

**REQUEST NO. 3:**

All documents relating to any investigation that MercExchange or its attorneys made of the Newman video.

**OBJECTION:**

In addition to the general objections, MercExchange objects to the request on the ground of the attorney-client privilege and the work product doctrine. MercExchange further objects to the request on the ground that it is overbroad and not reasonably calculated to lead to the discovery of admissible evidence.

**REQUEST NO. 4:**

All documents relating to Altitude Capital.

**OBJECTION:**

In addition to the general objections, MercExchange objects to the request as overbroad and exceeding the scope of discovery permitted by the Court's post-appeal order. As such, the request imposes an undue burden on MercExchange in responding. MercExchange further objects to the request on the ground of the attorney-client privilege and work product doctrine.

**REQUEST NO. 5:**

All documents relating to uBid.

**OBJECTION:**

In addition to the general objections, MercExchange objects to the request as overbroad and exceeding the scope of discovery permitted by the Court's post-appeal order. As such, the request imposes an undue burden on MercExchange in responding. MercExchange further objects to the request on the ground of the attorney-client privilege, the common interest privilege, and work product doctrine.

**REQUEST NO. 6:**

All documents relating to any attempts by MercExchange or its attorneys or agents to license or sell, or offer to license or sell, any of the MercExchange patents, including, without limitation, MercExchange's attempts to enter into marketing or licensing arrangements with either Amazon, MSN, Christie's or Yahoo.

**OBJECTION:**

In addition to the general objections, MercExchange objects to the request as overbroad and exceeding the scope of discovery permitted by the Court's post-appeal order. As such, the

request imposes an undue burden on MercExchange in responding. MercExchange further objects to the request on the ground of the attorney-client privilege and work product doctrine. MercExchange further objects to the request to the extent it seeks documents already produced in this litigation.

**REQUEST NO. 7:**

All documents relating to MercExchange's licensees, including, but not limited to, any communications between MercExchange and any MercExchange licensee.

**OBJECTION:**

In addition to the general objections, MercExchange objects to the request as overbroad and exceeding the scope of discovery permitted by the Court's post-appeal order. As such, the request imposes an undue burden on MercExchange in responding. MercExchange further objects to the request on the ground of the attorney-client privilege and work product doctrine. MercExchange further objects to the request to the extent it seeks documents already produced in this litigation.

**REQUEST NO. 8:**

All state and federal tax returns, including, but not limited to, any amendments, filed by or on behalf of MercExchange from 2004 to the present date.

**OBJECTION:**

In addition to the general objections, MercExchange objects to the request as overbroad and exceeding the scope of discovery permitted by the Court's post-appeal order. As such, the

request imposes an undue burden on MercExchange in responding. MercExchange further objects to the request on the ground of the attorney-client privilege and work product doctrine.

**REQUEST NO. 9:**

All documents that relate to the ChannelAdvisor licensing agreement with MercExchange.

**OBJECTION:**

In addition to the general objections, MercExchange objects to the request as overbroad and exceeding the scope of discovery permitted by the Court's post-appeal order. As such, the request imposes an undue burden on MercExchange in responding. MercExchange further objects to the request on the ground of the attorney-client privilege and work product doctrine. MercExchange further objects to the request to the extent it seeks documents already produced in this litigation.

**REQUEST NO. 10:**

All documents relating to any harm MercExchange has suffered or may suffer due to the absence or denial of an injunction against eBay or Half.com.

**OBJECTION:**

MercExchange relies upon its general objections.

**REQUEST NO. 11:**

All documents relating to MercExchange's corporate meetings, resolutions, or declarations, including, but not limited to, minutes of corporate meetings.

**OBJECTION:**

In addition to the general objections, MercExchange objects on the ground that the request is overbroad, unduly burdensome, and not likely to lead to the discovery of admissible evidence in light of the limited issues pending before the Court. MercExchange further objects to the request to the extent it pertains to documents or information beyond the scope of discovery permitted by the Court's post-appeal Order and Opinion. MercExchange further objects to the request to the extent it seeks documents already produced in this litigation.

**REQUEST NO. 12:**

All documents related to any attempt by MercExchange to commercialize or build any embodiment of any claim of any of the MercExchange patents.

**OBJECTION:**

In addition to the general objections, MercExchange objects on the ground that the request is overbroad and unduly burdensome. MercExchange further objects to the request to the extent it pertains to documents or information beyond the scope of discovery permitted by the Court's post-appeal Order and Opinion. MercExchange further objects to the request to the extent it seeks documents already produced in this litigation.

**REQUEST NO. 13:**

All documents relating to any ownership interest in or lien on any possible financial recovery from the current lawsuit.

**OBJECTION:**

In addition to the general objections, MercExchange objects on the ground that the request is overbroad and not likely to lead to the discovery of admissible evidence in light of the limited issues pending before the Court. MercExchange further objects to the request to the extent it pertains to documents or information beyond the scope of discovery permitted by the Court's post-appeal Order and Opinion. MercExchange also objects to the request on the ground of the attorney-client privilege and work product doctrine.

**REQUEST NO. 14:**

All documents relating to the amount and source of funds received by MercExchange from 2004 to the present.

**OBJECTION:**

In addition to the general objections, MercExchange objects on the ground that the request is overbroad and not likely to lead to the discovery of admissible evidence in light of the limited issues pending before the Court. MercExchange further objects to the request to the extent it pertains to documents or information beyond the scope of discovery permitted by the Court's post-appeal Order and Opinion.

**REQUEST NO. 15:**

Complete file histories for U.S. Patent Application Nos. 09/203,286, 09/253,014; 09/670,562; and 09/557,617.

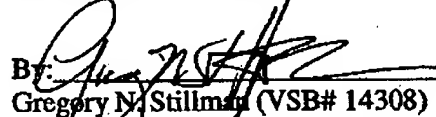
**OBJECTION:**

In addition to the general objections, MercExchange objects to the request as vastly overbroad, not likely to lead to the discovery of admissible evidence in light of the limited issues before the Court, and as exceeding the scope of discovery permitted by the Court's post-appeal order. As such, the request imposes an undue burden on MercExchange in responding. MercExchange further objects to the request to the extent it seeks documents already produced in this litigation.

Dated: January 29, 2007

Respectfully submitted,

MERCEXCHANGE, L.L.C.,

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Attorneys for Plaintiff  
MercExchange, L.L.C.

**CERTIFICATE OF SERVICE**

I hereby certify that on the 29<sup>th</sup> day of January, 2007, I caused a copy of the foregoing **PLAINTIFF MERCEXCHANGE, L.L.C.'S OBJECTIONS TO DEFENDANTS eBay, INC. AND HALF.COM, INC.'S REQUESTS FOR DOCUMENTS AND THINGS** to be served as follows:

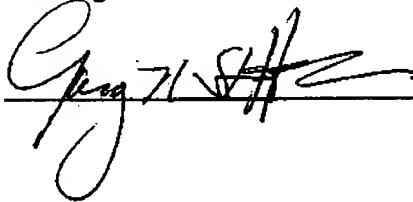
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Washington, DC 20005





No. 05-130

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**In the Supreme Court of the United States**

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**EBAY INC. AND HALF.COM, INC.,  
PETITIONERS**

**v.**

**MERCExchange, L.L.C.**

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**ON WRIT OF CERTIORARI  
TO THE UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT**

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**BRIEF FOR THE UNITED STATES  
AS AMICUS CURIAE SUPPORTING RESPONDENT**

---

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*Solicitor*  
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**MARK R. FREEMAN**  
*Attorneys*  
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*Washington, D.C. 20530-0001*  
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---

**ATTACHMENT**

**4**

### QUESTIONS PRESENTED

1. Whether the Federal Circuit erred in applying the legal standard governing the issuance of a permanent injunction after a finding of patent infringement.

2. Whether this Court should reconsider its precedents, including *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908), on when it is appropriate to grant an injunction against a patent infringer.

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# **In the Supreme Court of the United States**

No. 05-130

**EBAY INC. AND HALF.COM, INC.,  
PETITIONERS**

*v.*

**MERCExchange, L.L.C.**

***ON WRIT OF CERTIORARI  
TO THE UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT***

**BRIEF FOR THE UNITED STATES  
AS AMICUS CURIAE SUPPORTING RESPONDENT**

## **INTEREST OF THE UNITED STATES**

The United States has a strong interest, encompassing a variety of perspectives, in the scope of judicial remedies for patent infringement. Pursuant to the Patent Clause of the Constitution, U.S. Const. Art. I, § 8, Cl. 8, Congress has charged the United States Patent and Trademark Office (PTO), an agency of the Department of Commerce, with responsibility for examining patent applications, issuing patents, and advising the President on domestic and international issues of patent policy. See 35 U.S.C. 1 *et seq.* The United States is regularly engaged in litigation over the validity and scope of patents, sometimes as a patent holder but more commonly as a defendant in infringement actions. Although the United States (as well as its agents and contractors) is not subject to injunctive relief for patent infringement, see 28 U.S.C. 1498(a), it may seek such relief as a patent holder. Furthermore, the United States has entered into

international agreements that address remedies for patent infringement. See, e.g., Agreement on Trade-Related Aspects of Intellectual Property Rights, Dec. 15, 1993, arts. 28, 31, 33 I.L.M. 81, 94, 95 (TRIPS Agreement) (defining minimum rights of patent holders and restricting compulsory licensing). And because the grant or denial of patent injunctions may directly affect competition and innovation in the marketplace, this case implicates questions of core concern to both the Federal Trade Commission (FTC) and the Antitrust Division of the United States Department of Justice.<sup>1</sup>

#### STATEMENT

Respondent MercExchange, L.L.C. sued petitioners eBay Inc. and Half.com, Inc., in the United States District Court for the Eastern District of Virginia, alleging, among other things, willful infringement of U.S. Patent No. 5,845,265 ('265 patent), involving the marketing of goods through an electronic network. See Pet. App. 1a. A jury returned a verdict upholding the validity of the '265 patent and finding that petitioners had willfully infringed that patent and a related patent, and it awarded \$35 million in damages. See *id.* at 2a, 29a. The district court reduced the damage award to \$29.5 million and declined to impose permanent injunctive relief. See *id.* 3a, 51a, 73a. On cross-appeals, the Federal Circuit affirmed in part, reversed in part, vacated in part, and remanded for further proceedings. See *id.* at 3a, 28a. In particular, the court of appeals reversed the district court's denial of a per-

<sup>1</sup> See generally, FTC, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (Oct. 2003) (*FTC Report*) <<http://www.ftc.gov/os/2003/10/innovationrpt.pdf>>; Office of the Attorney General, U.S. Dep't of Justice, *Report of the Department of Justice's Task Force on Intellectual Property* (Oct. 2004) <[http://www.usdoj.gov/olp/ip\\_task\\_force\\_report.pdf](http://www.usdoj.gov/olp/ip_task_force_report.pdf)>; U.S. Dep't of Justice & FTC, *Antitrust Guidelines for the Licensing of Intellectual Property* (Apr. 6, 1995) (*Licensing Guidelines*), reprinted in 4 Trade Reg. Rep. (CCH) 20,733 (1995) <<http://www.usdoj.gov/atr/public/guidelines/0558.pdf>>.

manent injunction and remanded that matter for further proceedings. *Ibid.*

#### A. The Statutory Remedies For Patent Infringement

The Patent Clause of the Constitution empowers Congress "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to \* \* \* Inventors the exclusive Right to their \* \* \* Discoveries." U.S. Const. Art. 1, § 8, Cl. 8. Congress has implemented the Patent Clause through statutory enactments, commonly known as the Patent Acts, that have set out the conditions for obtaining a patent.<sup>2</sup>

The Patent Act of 1952, as amended, provides the currently controlling law governing the issuance of patents. See 35 U.S.C. 1 *et seq.* The Patent Act confers on a patent recipient, "[a]s a reward for inventions and to encourage their disclosure," *Universal Oil Prods. Co. v. Globe Oil & Refining Co.*, 322 U.S. 471, 484 (1944), the "right to exclude others from making, using, offering for sale, or selling the invention throughout the United States." 35 U.S.C. 154(a)(1). To protect and enforce that right, the Patent Act further provides that the patentee "shall have remedy by civil action for infringement of his patent." 35 U.S.C. 281. The Patent Act guarantees to prevailing patentees "damages adequate to compensate for the infringement," which "in no event [shall be] less than a reasonable royalty for the use made of the invention by the infringer," and which may, in appropriate cases, be multiplied up to three times. 35 U.S.C. 284. The successful patentee is entitled to costs and interest as a matter of course, *ibid.*, and, "in exceptional cases," may recover reasonable attorney fees, 35 U.S.C. 285.

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<sup>2</sup> See, e.g., Patent Act of 1790, ch. 7, 1 Stat. 109; Patent Act of 1793, ch. 11, 1 Stat. 318; Patent Act of 1836, ch. 357, 5 Stat. 117; Patent Act of 1839, ch. 88, 5 Stat. 353; Patent Act of 1870, ch. 230, 16 Stat. 198; Patent Act of 1939, ch. 450, 53 Stat. 1212; Patent Act of 1952, ch. 950, 66 Stat. 792.

The Patent Act also authorizes the district courts to protect a patentee's rights through injunctive relief. 35 U.S.C. 283. Congress first authorized injunctive relief as a permissible remedy for patent infringement more than 185 years ago, providing that the federal courts adjudicating patent disputes "shall have authority to grant injunctions according to the course and principles of courts of equity." Act of Feb. 15, 1819, ch. 19, 3 Stat. 481. Although Congress has regularly revisited the patent laws, it has left that grant of equity jurisdiction essentially unchanged.<sup>3</sup> In its current iteration, adopted in 1952, the Patent Act authorizes district courts to grant injunctive relief in the following terms:

The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.

35 U.S.C. 283.

#### B. The Proceedings Below

1. Following lengthy pretrial proceedings and a five-week trial in which the jury found, among other things, that MercExchange's '265 patent was valid and had been willfully infringed by petitioners, the district court considered post-trial motions, including MercExchange's request under 35

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<sup>3</sup> See, e.g., Patent Act of 1836, ch. 357, § 17, 5 Stat. 117 ("courts shall have power, upon bill in equity filed by any party aggrieved \* \* \* to grant injunctions, according to the course and principles of courts of equity"); Patent Act of 1870, ch. 230, § 55, 16 Stat. 206 ("the court shall have power, upon bill in equity filed by any party aggrieved, to grant injunctions according to the course and principles of courts of equity"); Patent Act of 1897, ch. 391, § 6, 29 Stat. 694 ("The several courts vested with jurisdiction of cases arising under the patent laws shall have power to grant injunctions according to the course and principles of equity, to prevent the violation of any right secured by patent, on such terms as the court may deem reasonable."); Patent Act of 1922, ch. 58, § 8, 42 Stat. 392 (same); Patent Act of 1946, ch. 726, 60 Stat. 778 (same).



U.S.C. 283 for injunctive relief. See Pet. App. 2a-3a, 29a-74a. The district court denied MercExchange's request for a permanent injunction. *Id.* at 52a-59a.

The district court stated that, under Federal Circuit case law, "an injunction should issue once infringement has been established unless there is sufficient reason for denying it." Pet. App. 52a (citing *W.L. Gore & Assocs. v. Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed. Cir. 1988)). The district court nevertheless recognized that "the decision to grant or deny injunctive relief remains within the discretion of the trial judge," *ibid.*, and it separately analyzed the four factors that traditionally govern equitable relief: (1) the likelihood of irreparable injury; (2) the inadequacy of legal remedies; (3) the balance of hardship between the parties; and (4) and the public interest, *id.* at 53a (citing *Odetics, Inc. v. Storage Tech. Corp.*, 14 F. Supp. 2d 785, 794 (E.D. Va. 1998), *aff'd*, 185 F.3d 1259 (Fed. Cir. 1999)). See generally *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 312-313 (1982).

The district court concluded that the "irreparable harm" factor counseled against issuing an injunction. Pet. App. 53a-55a. The court stated that, because MercExchange had established both the validity of its patent and the likelihood of continuing infringement, "immediate irreparable harm is presumed." *Id.* at 53a (quoting *Odetics*, 14 F. Supp. 2d at 794, and *Smith Int'l, Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1581 (Fed. Cir.), *cert. denied*, 464 U.S. 996 (1983)). The court concluded, however, that petitioners had adduced sufficient evidence at trial to overcome that presumption, reasoning that "the evidence of [MercExchange's] willingness to license its patents, its lack of commercial activity in practicing the patents, and its comments to the media as to its intent [to seek monetary compensation rather than an injunction] are sufficient to rebut the presumption that [MercExchange] will suffer irreparable harm if an injunction does not issue." *Id.* at

55a.<sup>4</sup> The district court correspondingly determined that MercExchange had an adequate remedy at law, emphasizing that MercExchange had “licensed its patents to others in the past and has indicated its willingness to license the patents to [petitioners]” as well. *Id.* at 55a-56a.

The district court concluded that the “public interest” considerations were in equipoise. Pet. App. 56a-58a. The court stated that the public interest in maintaining the integrity of the patent system usually favors equitable enforcement of a patentee’s right to exclude. *Id.* at 56a. But the court expressed concern that, in this case, the infringed patents were so-called “business-method patents,” which the court described as the subject of “growing concern” to the public. *Id.* at 57a. That fact, the court determined, tended to weigh against the issuance of an injunction, particularly because MercExchange did not itself practice its patents. *Ibid.*

The district court further concluded that the “balance of the hardships” favored petitioners. Pet. App. 58a-59a. It concluded that damages would adequately compensate MercExchange for any future infringement and that an injunction would “open[] a Pandora’s box of new problems,” including “contempt hearing after contempt hearing,” as petitioners attempted to reconfigure their systems to avoid infringement. *Ibid.* The court suggested that future infringement could be adequately deterred by the prospect of enhanced damages. *Id.* at 59a.

2. The court of appeals affirmed the jury’s finding of validity and willful infringement of the ’265 patent, but reversed other aspects of the verdict, which effectively reduced the award for past damages to \$25 million, and remanded for fur-

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<sup>4</sup> The court also noted that MercExchange “never moved this court for a preliminary injunction”—a factor that, although “certainly not dispositive,” tended in the district court’s view to undercut the presumption of irreparable harm. Pet. App. 55a.

ther proceedings on an infringement claim that the district court had resolved through summary judgment. Pet. App. 1a-28a. Most significantly for present purposes, the court of appeals reversed the district court's denial of a permanent injunction. *Id.* at 3a, 26a-28a.

The court of appeals stated that, "[b]ecause the 'right to exclude recognized in a patent is but the essence of the concept of property,' the general rule is that a permanent injunction will issue once infringement and validity have been adjudged." Pet. App. 26a (quoting *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1247 (Fed. Cir.), cert. denied, 493 U.S. 853 (1989)). The court acknowledged that district courts "have in rare instances exercised their discretion to deny injunctive relief in order to protect the public interest." *Id.* at 26a (quoting *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1547 (Fed. Cir.), cert. denied, 516 U.S. 867 (1995)). It cited, as an example, the public's need for use of "an invention to protect the public health." *Ibid.* But it concluded that the district court "did not provide any persuasive reason to believe this case is sufficiently exceptional to justify the denial of a permanent injunction." *Ibid.*

The court of appeals examined and rejected each of the district court's reasons for denying injunctive relief. "A general concern regarding business-method patents," the court explained, cannot justify "the unusual step" of denying a permanent injunction. Pet. App. 26a. Nor was it relevant, the court added, that future disputes might arise and require successive contempt hearings: "A continuing dispute of that sort is not unusual in a patent case, and even absent an injunction, such a dispute would be likely to continue in the form of successive infringement actions if the patentee believed the defendant's conduct continued to violate its rights." *Id.* at 27a.

The court of appeals also found nothing significant in the fact that MercExchange licenses, rather than uses, its patents. A patentee's willingness to negotiate a license, the court stated, "should not \* \* \* deprive it of the right to an injunction to which it would otherwise be entitled." Pet. App. 27a. MercExchange was therefore entitled to enforce its statutory right to exclude, even if only to increase its leverage in license negotiations. Such leverage, the court stated, "is a natural consequence of the right to exclude and not an inappropriate reward to a party that does not intend to compete in the marketplace with potential infringers." *Ibid.*<sup>5</sup> Accordingly, the court of appeals adhered to what it described as "the general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances," and it reversed the district court's denial of MercExchange's motion for a permanent injunction. *Id.* at 28a.

#### SUMMARY OF ARGUMENT

The court of appeals did not accurately articulate in its opinion the principles governing a patentee's right to equitable relief, but that court reached the correct result in reversing the district court's denial of MercExchange's request for a permanent injunction. The judgment of the court of appeals should therefore be affirmed.

I. A. The Patent Act of 1952 grants a district court discretionary authority to issue injunctive relief to prevent the continuing infringement of a patent that has been adjudged valid. See 35 U.S.C. 283. Despite references to a "general

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<sup>5</sup> Additionally, the court held, it was irrelevant that MercExchange had failed to seek a preliminary injunction, because preliminary and permanent injunctions "are distinct forms of equitable relief that have different prerequisites and serve entirely different purposes." Pet. App. 27a-28a (quoting *Lerner Germany GmbH v. Lerner Corp.*, 94 F.3d 1575, 1577 (Fed. Cir. 1996), cert. denied, 519 U.S. 1059 (1997)).

rule" favoring injunctive relief, the Federal Circuit has correctly recognized that the district court's grant of injunctive relief is discretionary. See *Roche Prods., Inc. v. Bolar Pharm. Co.*, 733 F.2d 858, 865 (Fed. Cir. 1984), cert. denied, 469 U.S. 856 (1984).

B. The Patent Act's provision that injunctions shall issue "in accordance with the principles of equity," 35 U.S.C. 283, directs the district courts to issue injunctions in accordance with the familiar four-factor test set out in *Weinberger v. Romero-Barcelo*, 456 U.S. 305 (1982). Although the court of appeals did not recite that four-factor test in reviewing the district court's exercise of discretion, that test provides the appropriate framework for disciplined evaluation of the special considerations that apply to patent claims.

C. Because a patent confers a statutory right to exclude others from using a patented invention, continuing infringement will normally result in irreparable injury that cannot be adequately compensated by a court-imposed "reasonable royalty" for future use. Nevertheless, neither the Patent Act nor this Court's decisions categorically require injunctive relief. Irreparable injury and inadequacy of monetary relief will not be present in every case. Moreover, a district court's consideration of the balance of hardships and the public interest may counsel against injunctive relief in some situations. By the same token, however, there is no basis for withholding injunctive relief in response to general concerns about potential abuse of the patent system. The decision whether injunctive relief is appropriate must necessarily turn on the facts of each case.

D. In this case, although the court of appeals did not invoke the traditional four-factor test, it correctly recognized that the district court had improperly relied on inappropriate considerations, which amounted to an abuse of discretion, and the court of appeals therefore properly reversed the district

court's denial of MercExchange's request for an injunction. The judgment of the court of appeals should be affirmed, and the case should return to the district court for entry of an appropriate decree.

II. There is no warrant for this Court to overrule its decision in *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908), or its other decisions addressing the appropriateness of granting injunctions in patent cases. The Court correctly held in *Continental Paper Bag* that a federal court may grant a patentee an injunction preventing continuing infringement even if the patentee has "unreasonab[ly]" failed to practice its own invention. *Id.* at 429-430. That holding, which preserves an equitable court's traditional discretion to grant or withhold relief, subject to review for abuse of discretion, is consistent with the governing legal principles.

#### ARGUMENT

##### **I. THE COURT OF APPEALS' JUDGMENT, WHICH REVERSED THE DISTRICT COURT'S DENIAL OF THE PATENTEE'S MOTION FOR A PERMANENT INJUNCTION, SHOULD BE AFFIRMED**

Petitioners argue that the Federal Circuit has adopted a "nearly-automatic injunction rule" (Pet. Br. 17, 26-28), has prevented the district courts from exercising their traditional equitable discretion in determining whether an injunction is appropriate in patent cases (*id.* at 20-26), and has applied an inappropriately demanding standard of review in place of the familiar abuse of discretion standard (*id.* at 28-41). The Federal Circuit's patent decisions have correctly recognized that injunctions issue as a matter of discretion, not as of right. At the same time, however, the court of appeals' opinion in this case does not acknowledge or articulate the traditional principles that govern the issuance of permanent injunctions. Patent litigants and the lower courts accordingly would benefit

from this Court's recapitulation of the controlling principles in light of the important consequences of patent litigation for competitiveness and technological progress. Application of those controlling principles supports issuance of an injunction in this case, and the judgment below should therefore be affirmed.

**A. Section 283 Of The Patent Act Grants District Courts Discretionary Authority To Issue A Permanent Injunction As A Remedy For Patent Infringement**

Petitioners and their amici are correct in construing Section 283 of the Patent Act to confer *discretionary* authority on district courts to grant injunctive relief as a remedy for patent infringement. The plain terms of Section 283, which provide that courts adjudicating patent disputes “may grant injunctions in accordance with the principles of equity,” foreclose any other construction.<sup>6</sup> When Congress enacted Section 283, it did so against the backdrop of this Court’s consistent statements that the similarly worded predecessor stat-

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<sup>6</sup> See *Jama v. ICE*, 543 U.S. 335, 346 (2005) (“The word ‘may’ customarily connotes discretion.”); *Haig v. Agee*, 453 U.S. 280, 294 n.26 (1981) (“[M]ay expressly recognizes substantial discretion.”). Compare 35 U.S.C. 283, with 35 U.S.C. 284 (the court “shall award the claimant damages”) (emphasis added). Indeed, even less permissive language would not be construed to deprive district courts of their traditional equitable discretion. See *United States v. Oakland Cannabis Buyers’ Coop.*, 532 U.S. 483, 496 (2001) (“[W]hen district courts are properly acting as courts of equity, they have discretion unless a statute clearly provides otherwise.”); *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 313 (1982) (“Congress may intervene and guide or control the exercise of the court’s discretion, but we do not lightly assume that Congress has intended to depart from established principles.”); *Amoco Prod. Co. v. Village of Gambell*, 480 U.S. 531, 544 (1987) (injunctive relief discretionary in absence of “clear indication” that Congress “intended to deny federal district courts their traditional equitable discretion”).

utes, see pp. 3-4, *supra*, conferred equitable discretion.<sup>7</sup> The Federal Circuit has emphatically expressed its correct understanding that Section 283 preserves that discretion:

Section 283, by its terms, clearly makes the issuance of an injunction discretionary: the court "*may grant*" relief "*in accordance with the principles of equity.*" The trial court thus has considerable discretion in determining whether the facts of a situation require it to issue an injunction.

*Roche Prods., Inc. v. Bolar Pharm. Co.*, 733 F.2d 858, 865 (Fed. Cir.), cert. denied, 469 U.S. 856 (1984).

Since its decision in *Roche Products*, however, the Federal Circuit has stated on several occasions—including the case below—that, as a "general rule," a patentee that establishes the validity of its patent and the fact of infringement is entitled to a permanent injunction prohibiting future infringement. Pet. App. 26a; see, e.g., *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1247 (Fed. Cir.) ("It is the general rule that an injunction will issue when infringement has been adjudged, absent a sound reason for denying it."), cert. denied, 493 U.S. 853 (1989). The court below also referred to "the general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances." Pet. App. 28a. Construed as enunciations of the governing legal rule, those statements would be erroneous; no "general rule" mandates injunctive relief in patent cases. The statements fare better, however, as descriptions of how the

<sup>7</sup> See *Parks v. Booth*, 102 U.S. 96, 97 (1880) ("Federal courts vested with jurisdiction [upon a bill in equity] have power, in their discretion, to grant injunctions to prevent the violation of any right secured by a patent, as in other cases of equity cognizance."); see also *Rice & Adams Corp. v. Lathrop*, 278 U.S. 509, 514 (1929) (discretion in issuing interlocutory injunction); *Keyes v. Eureka Consol. Min. Co.*, 158 U.S. 150 (1895) (denying injunction on equitable grounds); *Lane & Bodley Co. v. Locke*, 150 U.S. 193, 200-201 (1893) (same); *Root v. Railway Co.*, 105 U.S. 189, 191-194 (1881) (describing the early American history of injunctive relief in patent disputes).



familiar our-factor test for injunctive relief will play out in the typical case.<sup>8</sup>

Contrary to petitioners' suggestions, the Federal Circuit's decisions, which cite *Roche Products* approvingly (e.g., Pet. App. 26a), do not reject the principle that a "trial court thus has considerable discretion in determining whether the facts of a situation require it to issue an injunction" (*Roche Prods.*, 733 F.2d at 865), nor do those decisions announce a "nearly-automatic injunction rule" (Pet. Br. 17). Rather, those decisions repeat the past observations of courts and patent commentators that a patentee that has proved infringement of a valid patent and a continuing risk of infringement will usually be able to satisfy the traditional standards for obtaining injunctive relief.<sup>9</sup>

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<sup>8</sup> Compare *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 197 (1980) ("The traditional remedy against \* \* \* infringement is the injunction."), with *W.L. Gore & Assocs., Inc. v. Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed. Cir. 1988) ("Although the district court's grant or denial of an injunction is discretionary depending on the facts of the case, \* \* \* injunctive relief against an adjudged infringer is usually granted."), and *KSM Fastening Sys., Inc. v. H.A. Jones Co.*, 776 F.2d 1522, 1524 (Fed. Cir. 1985) ("injunctive relief against an infringer is the norm").

<sup>9</sup> See *Odetics, Inc.*, 185 F.3d at 1272 ("Thus, while we have stated the general rule that an injunction should follow an infringement verdict [citing *Richardson*, 868 F.2d at 1247], we also recognize that district courts, as befits a question of equity, enjoy considerable discretion in determining whether the facts of a situation require it to issue an injunction [citing *Roche Prods.*, 733 F.2d at 865]."). See also, e.g., Donald S. Chisum, *Principles of Patent Law* 1342 (3d ed. 2004); 7 Ernest B. Lipscomb III, *Lipscomb's Walker on Patents* § 25:33, at 342-343 (1988 & Supp. 2004); Irving Kayton, *Kayton on Patents* 1-20 to 1-21 (1979); Note, *Injunctive Relief in Patent Infringement Suits*, 112 U. Pa. L. Rev. 1025, 1048 (1964); Note, *The Enforcement of Rights Against Patent Infringers*, 72 Harv. L. Rev. 323, 342 (1958).

**B. Section 283 Of The Patent Act Additionally Directs That Such Injunctions Shall Be Issued In Accordance With The Familiar Principles Of Equity**

Petitioners further contend (Pet. Br. 17, 20-21) that the Federal Circuit has “supplanted the district court’s consideration of the fourfold ‘principles of equity’”—requiring consideration of irreparable injury, adequacy of legal remedies, the balance of hardships, and the public interest—in favor of a “zero (or at most one) factor test” that is “the antithesis of the traditional four-factor approach.” That characterization somewhat overstates the necessary import of the decision below, but it does raise a matter of valid concern.

Petitioners are certainly correct in their premise that Section 283, which provides that patent injunctions shall issue “in accordance with the principles of equity,” 35 U.S.C. 283, directs the district courts, when adjudicating private patent rights, to issue injunctions in accordance with the familiar four-factor test. As this Court explained in *Weinberger v. Romero-Barcelo*, 456 U.S. 305 (1982), “the basis for injunctive relief in the federal courts has always been irreparable injury and the inadequacy of legal remedies.” *Id.* at 312. When the parties “present competing claims of injury,” the court must also “balanc[e]” their interests in light of the possible injuries that might result from granting or denying the request for injunctive relief. *Ibid.* (quoting *Yakus v. United States*, 321 U.S. 414, 440 (1944)). Furthermore, the court “should pay particular regard for the public consequences in employing the extraordinary remedy of injunction.” *Ibid.* If Congress had intended “to depart from established principles” and base

injunctive relief on a different standard, it would have made that intention manifest. *Id.* at 313.<sup>10</sup>

The Federal Circuit, in this case as well as others, has not explicitly recited the traditional four-factor test when reviewing a district court's grant or denial of permanent injunctive relief.<sup>11</sup> The court of appeals' failure to do so in a particular case is not itself a basis for reversal. Nevertheless, the court of appeals' analysis would proceed in a more disciplined fashion if the court expressly applied the abuse-of-discretion standard with explicit reference to the traditional four-factor test, which provides the requisite framework for evaluating the distinct considerations that apply to patent claims.<sup>12</sup>

<sup>10</sup> Congress has exercised that prerogative in the patent context in certain limited respects. Most significantly, Congress has eliminated the district courts' jurisdiction in equity to enjoin the infringement of a patent by the federal government (or its officers or agents, or contractors). See 28 U.S.C. 1498(a). As this Court has recognized, Section 1498(a) explicitly limits plaintiffs alleging federal government infringement to remedies at law. See *Crozier v. Fried. Krupp Aktiengesellschaft*, 224 U.S. 290, 306-309 (1912); see also *Florida Prepaid Postsecondary Educ. Expense Bd. v. College Sav. Bank*, 527 U.S. 627, 648 n.11 (1999). The Federal Circuit has appropriately applied that provision to hold that, even after obtaining a verdict of infringement, a patentee cannot prevent a manufacturer from supplying infringing devices to the government. See *W.L. Gore & Assocs.*, 842 F.2d at 1282-1283.

<sup>11</sup> In contrast, the Federal Circuit routinely cites a similar four-part test in reviewing the grant or denial of preliminary injunctions. See, e.g., *Reebok Int'l, Ltd. v. J. Baker, Inc.*, 32 F.3d 1552, 1556 (Fed. Cir. 1994); *Illinois Tool Works, Inc. v. Grip-Pak, Inc.*, 906 F.2d 679, 681 (Fed. Cir. 1990); *Hybritech Inc. v. Abbott Labs.*, 849 F.2d 1446, 1451 (Fed. Cir. 1988). As this Court has explained, "[t]he standard for a preliminary injunction is essentially the same as for a permanent injunction with the exception that the plaintiff must show a likelihood of success on the merits rather than actual success." *Amoco Prod. Co.*, 480 U.S. at 546 n.12.

<sup>12</sup> As a prerequisite to any equitable relief, a court must also consider any traditional defenses to equitable relief, such as laches or unclean hands. The Federal Circuit routinely addresses such matters. See, e.g., *Odetics, Inc.*, 185 F.3d at 1272-1273 (patentee not entitled to permanent injunction as to products manufactured during laches period); *Symbol Techs., Inc. v. Lemelson Med.*,

1. *Irreparable Injury*. As this Court recognized in *Amoco Production*, some transgressions of legal rights, by virtue of the “nature” of the injury, will often produce “irreparable” consequences. 480 U.S. at 545. Infringement of a valid patent typically falls within that category. By definition, infringement deprives a patentee of its “right to exclude others from making, using, offering for sale, or selling the invention,” 35 U.S.C. 154(a)(1), which in turn may result in “irreparable injury” by denying the patentee, for some unrecoverable period of time, the only legal right that a patent conveys. See *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 215 (1980) (“the essence of a patent grant is the right to exclude others from profiting by the patented invention”); *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 510 (1917) (“It has long been settled that the patentee receives nothing from the law which he did not have before, and that the only effect of his patent is to restrain others from manufacturing, using or selling that which he has invented.”).

The prospect that infringement will produce irreparable harm arises whether the patentee actually uses its invention or licenses others to do so. Infringement may alter the marketplace in ways that cannot be readily restored, by affecting, for example, market share, reputation for innovation, and intangible competitive opportunities, such as the opportunity to be first to market with a particular technology, to establish a particular technology as a de facto industry standard, or to develop and patent further improvements to the original design. Accordingly, a patentee that has obtained a judicial determination of continuing infringement of a valid patent can

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*Educ. & Research Found.*, 422 F.3d 1378, 1384-1385 (Fed. Cir. 2005) (prosecution laches barred enforcement of patent); see also *A.C. Aukerman Co. v. R.L. Chaides Const. Co.*, 960 F.2d 1020, 1039-1043 (Fed. Cir. 1992) (en banc) (contrasting the doctrines of laches and equitable estoppel in patent law); *Monsanto Co. v. McFarling*, 363 F.3d 1336, 1341-1342 (Fed. Cir. 2004) (discussing patent misuse).

normally make a strong showing of “irreparable harm” based upon its statutory right to exclude others from using or selling the invention.<sup>13</sup>

2. *Inadequacy of Legal Remedies.* As this Court also noted in *Amoco Production*, there are some transgressions of legal rights that, by their “nature,” can “seldom be adequately remedied by money damages.” 480 U.S. at 545. The financial consequences of patent infringement, which denies the patentee the economic reward that spurs innovation, see, e.g., *Mazer v. Stein*, 347 U.S. 201, 219 (1954); cf. Joseph A. Schumpeter, *Capitalism, Socialism, and Democracy* 73-74 (1942), are theoretically remediable through monetary damages. But even if damages were a permissible substitute for the patentee’s prospective right to exclude, the quantification of those damages, in the form of a “reasonable royalty,” see 35 U.S.C. 284, can be fraught with difficulty. See generally 7 Donald S. Chisum, *Chisum on Patents* § 20.03[3] (1999 & 2005 Supp.).<sup>14</sup>

Courts have no choice but to quantify monetary damages for past infringement. See *Atlas Powder Co. v. Ireco Chems.*,

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<sup>13</sup> The Federal Circuit has repeatedly stated, in the preliminary injunction context, that a showing of continuing infringement “raises a presumption of irreparable harm to the patentee” that, although “rebuttable,” nevertheless “shifts the ultimate burden of production on the question of irreparable harm onto the alleged infringer.” *Reebok Int’l Ltd.*, 32 F.3d at 1556; see, e.g., *Smith Int’l Inc.*, 718 F.2d at 1581. This Court has made clear, however, that such presumptions are “contrary to traditional equitable principles.” See *Amoco Prod. Co.*, 480 U.S. at 545. The party seeking equitable relief ordinarily bears the burden of demonstrating that the relief is warranted. See *Rondeau v. Mosinee Paper Corp.*, 422 U.S. 49, 61 (1975). Nevertheless, continuing infringement that denies the patentee its right to exclude is powerful evidence of irreparable harm.

<sup>14</sup> See, e.g., *Riles v. Shell Exploration & Prod. Co.*, 298 F.3d 1302, 1311 (Fed. Cir. 2002); *Panduit Corp. v. Stahl Bros. Fibre Works, Inc.*, 575 F.2d 1162, 1168 (6th Cir. 1978); see also 2 John W. Schlicher, *Patent Law: Legal and Economic Principles* §§ 9:2, 9:77-9:81 (2d ed. 2004).

773 F.2d 1230, 1233 (Fed. Cir. 1985); 35 U.S.C. 284. But the availability of prospective injunctive relief will normally weigh against the substitution of a court-imposed "reasonable royalty" for future use, which could be analogized to inequitable "compulsory licens[ing]." See *ibid.*<sup>15</sup> Congress has consistently turned aside proposals to adopt broad-based compulsory licensing schemes. See *Dawson Chem. Co.*, 448 U.S. at 215 n.21; *Hartford-Empire Co. v. United States*, 323 U.S. 386, 417 n.18, 433 n.27 (1945) (collecting examples).<sup>16</sup> In addition, the United States has entered into international treaties respecting intellectual property that preserve the patentee's right to exclude and that limit compulsory licensing.<sup>17</sup> In light of such congressional concerns and international agreements, the courts, at a minimum, should be cautious in awarding monetary damages as a substitute for prospective injunctive relief.

3. *Balance of Hardships.* As this Court has recognized, equity does not require a court to "restrain an act the injurious consequences of which are merely trifling." *Weinberger*, 456 U.S. at 311 (citation omitted); see *Amoco Prod. Co.*, 480 U.S. at 545. When the patent litigants present legitimately

<sup>15</sup> See *In re Mahurkar Double Lumen Hemodialysis Catheter Patent Litigation*, 831 F. Supp. 1354, 1397 (N.D. Ill. 1993) ("The actual market beats judicial attempts to mimic the market every time, making injunctions the normal and preferred remedy."), *aff'd*, 71 F.3d 1573 (Fed. Cir. 1995); but see *Foster v. American Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir.) (allowing compulsory royalties), *cert. denied*, 419 U.S. 833 (1974).

<sup>16</sup> Congress has authorized the unconsented use of patented inventions in only limited circumstances involving the federal government, 28 U.S.C. 1498(a), or narrow fields of technology, e.g., 42 U.S.C. 2183 (patents related to atomic energy); 42 U.S.C. 7608 (patents related to certain air-pollution control technologies).

<sup>17</sup> See, e.g., TRIPS Agreement, arts. 28, 31, 33 L.L.M. at 94-95; U.S.-Australia Free Trade Agreement, May 18, 2004, art. 17.9, ¶ 7 <[http://www.ustr.gov/assets/Trade\\_Agreements/Bilateral/Australia\\_FTA/Final\\_Text/Section\\_Index.html](http://www.ustr.gov/assets/Trade_Agreements/Bilateral/Australia_FTA/Final_Text/Section_Index.html)>.

competing claims of injury, the court should consider whether injunctive relief fairly "balances the conveniences of the parties and possible injuries to them." *Weinberger*, 456 U.S. at 312 (citation omitted). The balance of hardships invariably depends on a fact-specific inquiry that may weigh in favor of, or against, injunctive relief in a particular patent case. As a general matter, and absent countervailing evidence, it favors structuring injunctive relief to protect the patentee's judicially validated right to exclude without subjecting the infringer to disproportionately injurious consequences. Moreover, the balance of hardships inquiry can consider actions of the patentee that, while not rising to the level of providing a defense to equitable relief, nonetheless counsel against enjoining defendants who have acted in good faith. The balance-of-hardships inquiry can temper the hardship that might otherwise fall on a non-willful infringer, particularly one that has in good faith invested effort or capital without knowledge of the infringement. By contrast, that inquiry correspondingly disfavors the willful infringer.

4. *Public Interest.* This Court has repeatedly acknowledged "the important role of the 'public interest' in the exercise of equitable discretion." *Amoco Prod. Co.*, 480 U.S. at 545. In patent litigation, there is a general public interest in "maintaining the integrity of the patent system," *Odetics*, 14 F. Supp. 2d at 795.<sup>18</sup> Nevertheless, the public interest may

<sup>18</sup> As the Court explained in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989), the federal patent system "embodies a carefully crafted bargain for encouraging the creation and disclosure of new, useful, and non-obvious advances in technology and design in return for the exclusive right to practice the invention for a period of years." *Id.* at 150-151. Thus, while the public may have discrete interests in unbroken access to a particular invention that militate against injunctive relief in a particular case, in the ordinary case the enforcement in equity of a patentee's exclusive right to the invention generally advances the public interest, as identified by Congress, by guaranteeing to the patentee the benefit of the basic bargain reflected in the patent system. See *id.* at 151.

weigh against an injunction that would “frustrat[e] an important public need for the invention.” *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1547 (Fed. Cir.), cert. denied, 516 U.S. 867 (1995). As in the case of balancing hardships, the inquiry will depend crucially on a fact-specific inquiry. The question is not whether injunctive relief would merely inconvenience third parties, but rather whether such relief would undermine an identifiable public interest in the realm of national security, public health or safety, the operation of commerce, or other comparable areas of vital concern to innocent third parties or the public at large. See IBM Br. 21-23; Securities Industry Ass’n (SIA) Br. 6-10; Business Software Alliance (BSA) Br. 29-30.

**C. The Granting Or Withholding Of Injunctive Relief Should Turn On The Facts Of Each Case Rather Than On General Policy Concerns Respecting Potential Abuse Of The Patent System**

Petitioners and many amici express concern that the Federal Circuit’s allegedly “automatic” or “near automatic” injunction rule in patent cases invites abusive litigation and stifles innovation. See, *e.g.*, Pet. Br. 24-25; Time Warner Br. 8-25; BSA Br. 7-12; American Innovators’ Alliance (AIA) Br. 22-30. Those entities may overstate the extent to which the Federal Circuit has, in fact, adopted an “automatic” or “near-automatic” patent injunction rule. But, in any event, they raise valid concerns that an automatic injunction rule has no place in the inherently discretionary inquiry into the appropriateness of injunctive relief and that unjustified or overly broad injunctive relief *in particular cases* can produce abuses that impair competition and innovation. The solution lies, first, in the district courts’ careful application of the familiar four-factor test for equitable relief; and second, in the Federal Circuit’s review of the district courts’ determinations of ap-



propriate relief under the abuse-of-discretion standard. See pp. 11-20, *supra*.

A more exacting application of traditional equitable principles will properly foreclose, or limit the scope of, injunctive relief in appropriate cases. A careful application of those principles would ameliorate, for example, the so-called "hold-up" and "patent thicket" scenarios, in which an opportunistic patentee may theoretically exploit the additional leverage afforded by an injunction to extract "windfall" or "in terrorem" settlements far out of proportion to the value of the patent at issue. See, e.g., Pet. Br. 34, 47, 49; Time Warner Br. 8-12; BSA Br. 5-12; SIA Br. 18-19; Computer & Communications Indus. Ass'n Br. 2-3, 7-8; AIA Br. 25-29; see generally *FTC Report* ch. 2, at 25-29; *id.* ch. 3, at 34-41, 51-53.<sup>19</sup> In such a scenario, a district court might properly conclude, after taking account of the balance of hardships and the public interest, that injunctive relief is inappropriate.<sup>20</sup>

<sup>19</sup> A hold-up scenario might arise, as one example, in the case of the implementation of industry standards. A patentee may assert that its patents cover government-mandated or industry-adopted technical standards, such that every economically feasible implementation of the standard necessarily infringes the patent. See generally Mark A. Lemley, *Intellectual Property Rights and Standard-Setting Organizations*, 90 Cal. L. Rev. 1889 (2002); Janice M. Mueller, *Patenting Industry Standards*, 34 J. Marshall L. Rev. 897 (2001); see also *Rambus Inc. v. Infineon Techs. AG*, 318 F.3d 1081, 1107-1109 (Fed. Cir. 2003) (Prost, J., dissenting in part) (describing a hold-up scheme).

<sup>20</sup> See *Weinberger*, 456 U.S. at 311-312 (the remedy of injunction is not available "to restrain an act the injurious consequences of which are merely trifling" (quoting *Consolidated Canal Co. v. Mesa Canal Co.*, 177 U.S. 296, 302 (1900))). The "hold-up" problem is not a new concern in patent law, and federal courts have in the past exercised their discretion to deny equitable relief in appropriate cases. E.g., *Hoe v. Boston Daily Advertiser Corp.*, 14 F. 914, 915 (C.C.D. Mass. 1883) (denying an injunction because the harm to the defendant would be severe, and "[t]he only advantage which the plaintiffs could derive from an injunction, would be to put them in a better situation \* \* \* for the further conduct of [license] negotiation[s]").

Petitioners' and the amici's concerns extend, of course, to other scenarios apart from the "hold-up" and "patent thicket" problems, ranging from the practice of "submarine patenting" (e.g., AIA Br. 27-28) to the emergence of opportunistic "patent litigation" entities (e.g., BSA Br. 12-18). Although a proper application of traditional equitable principles should serve to alleviate those concerns to a significant extent, they raise questions that reach well beyond the specific issues in this case and may implicate concerns better addressed through targeted legislation than through general statements about the proper application of the four-factor test to scenarios not before the Court.<sup>21</sup> The potential for abuse should not obscure the reality that continuing infringement of a valid patent *typically* produces irreparable injury that is not readily compensable through a court-imposed prospective royalty and that the public and private equities frequently weigh in favor

<sup>21</sup> In some such cases, the patent law already provides potential solutions. See, e.g., *Symbol Techs., Inc.*, 422 F.3d at 1384-1385 (where the patentee purposefully delayed issuance of patent claims to ambush infringers, the equitable doctrine of prosecution laches barred enforcement of the patent); *In re Bogese*, 303 F.3d 1362 (Fed. Cir. 2002) (affirming PTO's application of prosecution laches); see also PTO, *Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims*, 71 Fed. Reg. 48 (2006) (proposing guidelines to minimize delays in issuance of patents). In other cases of apparent inequity, the underlying concerns may arise from patentability standards that extend protection to discoveries that allegedly fail to satisfy the statutory criteria for patentability, and are best addressed (if at all) by reference to those standards rather than by adjusting the rules governing the availability of injunctive relief for valid patents. See, e.g., *FTC Report Executive Summ.* at 8-12, 14-15 (FTC recommendations for patent reform, including elimination of "clear and convincing evidence" burden of proof for patent invalidity and modification of test for nonobviousness); Pet. for Cert. in *KSR Int'l Co. v. Teleflex Inc.*, 126 S. Ct. 327 (2005) (No. 04-1350) (requesting United States' views on test for non-obviousness). And in still other cases, the problem may lie in the need for legislation to address policy concerns that are beyond the purview of the courts. See *FTC Report Executive Summ.* at 7-8, 12-14, 15-17 (FTC's recommendations for administrative and legislative reform).

of injunctive relief. Curtailing the traditional availability of equitable relief in *those* circumstances will disrupt settled law and investment-backed expectations without solving much-mooted problems that are not presented by this case.

**D. Although The Court Of Appeals Did Not Recite The Governing Equitable Principles, It Correctly Concluded That The District Court Abused Its Discretion In Denying A Permanent Injunction In This Case**

The court of appeals did not recite or explicitly apply the traditional four-part test that governs the district court's exercise of equitable discretion, but it properly concluded that the district court abused its discretion by relying on inappropriate considerations in withholding equitable relief. Because this Court "reviews judgments, not statements in opinions," the court of appeals' judgment should be affirmed, and the case should be returned to the district court for entry of an appropriately tailored injunction. *E.g., Johnson v. De Grandy*, 512 U.S. 997, 1003 n.5 (1994) (citations omitted).<sup>22</sup>

1. *MercExchange's Willingness to License its Patents Does Not Establish a Lack of Irreparable Harm or the Adequacy of Legal Remedies.* The district court abused its dis-

<sup>22</sup> There is no merit to petitioners' objection (Pet. Br. 29) that the court of appeals improperly applied a "de novo" standard of review. The Federal Circuit has made clear that it reviews a district court's grant or denial of injunctive relief under an abuse-of-discretion standard. See, e.g., *Odetics*, 185 F.3d at 1272; *Johns Hopkins Univ. v. Cellpro, Inc.*, 152 F.3d 1342, 1354 (1998); *Joy Techs., Inc. v. Flakt, Inc.*, 6 F.3d 770 (Fed. Cir. 1993); *Ortho Pharm. Corp. v. Smith*, 959 F.2d 936, 945 (Fed. Cir. 1992). "An abuse of discretion may be established by showing that the district court either made a clear error of judgment in weighing relevant factors, or exercised its discretion based on an error of law or on findings which were clearly erroneous." *Joy Techs.*, 6 F.3d at 772. Although the court of appeals did not explicitly state that it was applying the abuse-of-discretion standard in this case, its analysis is consistent with that standard, because the court rested its decision on the district court's legal errors in relying on improper factors and in giving potentially relevant factors undue weight. See Pet. App. 26a-28a.

cretion by accepting petitioners' submission that MercExchange's willingness to license its patents, as reflected in its public statements and commercial actions, is "sufficient" to establish that MercExchange will not "suffer irreparable harm if the injunction does not issue," Pet. App. 55a, and that monetary damages can provide "an adequate remedy at law," *id.* at 56a. A patentee's willingness to license its inventions and its behavior in doing so are not irrelevant to a district court's inquiries into "irreparable harm" and "adequacy of legal remedies," and those considerations may in some circumstances support a determination that the prerequisites for equitable relief have not been established, but they provide no basis in this case for concluding that the harm is reparable and damages will suffice.<sup>23</sup>

The district court's error rested in treating a patentee's willingness to provide its inventions on negotiated terms to selected licensees as surrendering more generally the patentee's statutory right to exclude others. The district court simplistically treated patent licensing agreements as merely fixing a general royalty rate for unrestricted use of the patent. But patentees frequently structure licensing agreements to accomplish a variety of purposes apart from pure remuneration for use. A patentee may seek, for example, to establish incentives for particularly profitable uses of the invention; promote widespread acceptance of the technology in order to make related products more attractive or successful; promote its own brands by requiring licensees to display its trademarks on products incorporating the licensed technology; mitigate the risk of "blocking patents" by requiring licensees

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<sup>23</sup> A patentee's willingness to license is most likely to be relevant when the patentee broadly engages in unrestricted, nonexclusive licensing in exchange for fixed compensation, which could suggest that the patentee may be adequately compensated, on a prospective basis, by charging the infringer an appropriate royalty. But that is not the situation here.

to grant back to the patentee a nonexclusive license to any improvements it may develop; and carefully select its licensees to protect the reputation of the products and services associated with the patent and thus with the inventor. See, e.g., *Licensing Guidelines* § 2.3, at 20,733.

In this case, MercExchange's licensing agreements contained specific conditions and limitations.<sup>24</sup> Accordingly, MercExchange's practice of licensing, without more, does not provide an adequate basis for concluding that the harm from infringement is reparable and money damages are an adequate recompense for an infringer's unrestricted use of the patent. Pet. App. 27a. A contrary result could deter economically efficient licensing arrangements, as patentees might be unwilling to enter into individually tailored licensing arrangements if an adjudicated infringer could later seize upon their willingness to license as a basis for denying injunctive relief.<sup>25</sup>

2. *The Concerns Associated with Business-Method Patents Do Not Establish a Public Interest in Denying Injunctive Relief.* The district court also abused its discretion in relying on the "growing concern over the issuance of business-method patents" (Pet. App. 57a) to offset the normal understanding that the public interest favors "granting an injunction to protect the plaintiff's patent rights" (*id.* at 58a). The court of appeals correctly observed that a "general concern regarding business-method patents \* \* \* is not the

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<sup>24</sup> The AutoTrader license, for example, was restricted to a particular field of use and conditioned the licensee's payment of royalties on MercExchange's prevention of infringement. See J.A. 498-512.

<sup>25</sup> As the court of appeals noted (Pet. App. 27a-28a), the district court also erred in relying on the plaintiff's failure to seek preliminary injunctive relief as indicative of the absence of irreparable harm (*id.* at 55a). While the preliminary injunction standard is similar to that for a permanent injunction, see note 11, *supra*, the remedies serve distinct purposes, and litigants are not obligated to seek preliminary relief to ensure their right to permanent relief. See Pet. App. 27a-28a; *Lerner Germany GmbH*, 94 F.3d at 1577.

type of important public need that justifies denying injunctive relief." *Id.* at 26a. Whatever the merits and proper scope of patent protection for business-method patents, this case presents no opportunity to consider those issues, because petitioners have not preserved a challenge to the validity of the '265 patent. In the present posture of this case, therefore, MercExchange's patent is entitled to legal protection, and the district court abused its discretion in relying on concerns about patent validity as a basis for withholding injunctive relief. While Congress could provide different forms of relief for different classes of patents, it has not done so here, and the "public interest" standard is not an adequate substitute for such targeted legislation.

Petitioners conspicuously do not defend the district court's analysis regarding business-method patents, endorsing only the "general direction" of the court's reasoning. See Pet. Br. 40. Petitioners instead suggest (*id.* at 39, 40-41, 49) that "there might not be a valid patent to vindicate" because the PTO has provisionally determined, in *ex parte* reexamination proceedings begun after the district court's judgment, that the patent claims at issue in this litigation are invalid. See generally 35 U.S.C. 301-307 (2000 & Supp. II 2002).<sup>26</sup> That argument, however, places inappropriate weight on the provisional results of the PTO reexamination proceedings, which have not yet culminated in a final agency decision, much less a final determination of invalidity. See 35 U.S.C. 134, 141, 306 (2000 & Supp. II 2002) (provisions governing

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<sup>26</sup> PTO reexamination is an administrative proceeding that may, but need not, result in the limitation or cancellation of some or all of the claims in a patent. The Patent Act authorizes two types of reexamination proceedings: *ex parte* reexaminations, which permit only limited participation by a third-party requester, see 35 U.S.C. 301-307 (2000 & Supp. II 2002); and *inter partes* reexaminations, which resemble adversarial administrative litigation, see 35 U.S.C. 311-318 (2000 & Supp. II 2002). The reexamination in this case, like most reexaminations conducted by the PTO, is of the *ex parte* variety.

administrative and judicial appeals from reexamination proceedings). The mere pendency of a non-final reexamination proceeding merits no particular weight in a district court's equitable calculus under Section 283. The existence of such a proceeding by itself implies nothing meaningful about its likely outcome, and a contrary rule would needlessly encourage infringement defendants to request reexamination proceedings merely to forestall a permanent injunction. See 35 U.S.C. 302, 311 (2000 & Supp. II 2002) (authorizing third party requests for reexamination).<sup>27</sup>

3. *The Possibility of Contempt Proceedings Does Not Tip the Balance of Hardships in Favor of Petitioners.* The district court further abused its discretion by giving inordinate weight, in balancing the hardships between the parties, to the prospect that issuance of an injunction following contentious litigation would lead to burdensome contempt proceedings. Pet. App. 58a-59a. As the court of appeals explained, district courts adjudicating patent cases regularly encounter continuing disputes over compliance with resulting injunctions. *Id.* at 27a. It is incongruous to conclude that the prospect of such disputes favors the infringer and weighs against the issuance of otherwise warranted equitable relief. Indeed, if anything, the live prospect of future contempt proceedings would seem to bolster the case for injunctive relief. Petitioners, moreover, were found to have *willfully* infringed MercExchange's

<sup>27</sup> There is no question that, if the PTO reexamination proceedings culminate in a final order of invalidity, MercExchange would have no right to any remedy for infringement because there would be no valid patent to be infringed, and any injunction previously granted would be subject to vacatur. But the pendency of the ongoing proceedings has no bearing on the remedial issues before this Court. If this Court affirms the court of appeals' judgment, the district court, on remand from the court of appeals' mandate, would have discretion to consider whether to stay or condition the remedy pending the outcome of the reexamination. See *Slip Track Sys., Inc. v. Metal Lite, Inc.*, 159 F.3d 1337, 1341 (Fed. Cir. 1998); cf. 35 U.S.C. 318 (expressly authorizing stays pending resolution of *inter partes* reexamination proceedings).

patents and therefore are in a poor posture to complain about the burdens that compliance might pose. Finally, as the court of appeals observed, in the absence of an injunction, such disputes would still “be likely to continue,” but in the more burdensome form of “successive infringement actions.” *Id.* at 27a. Requiring MercExchange, which proved its claim of willful infringement after protracted litigation, with the obligation to bring new infringement actions inequitably balances the hardships in this case.

4. *The District Court Retains Discretion on Remand to Accommodate the Parties’ Respective Interests by Adjusting the Terms of the Injunction.* Petitioners’ suggestions that the issuance of an injunction will have draconian consequences overlooks the power of the district court, on remand, to accommodate a wide variety of objections through careful formulation of the terms of an injunction. The court of appeals’ judgment does not constrain the district court from exercising discretion on remand in issuing injunctive relief “on such terms as the court deems reasonable.” 35 U.S.C. 283. The district court has ample discretion to accommodate petitioners’ legitimate concerns without denying to the patent owner the “traditional remedy” against infringement. *Dawson Chemical*, 448 U.S. at 197; see *Hecht v. Bowles*, 321 U.S. 321, 329 (1944) (“The essence of equity jurisdiction has been the power of the Chancellor to do equity and to mould each decree to the necessities of the particular case. Flexibility rather than rigidity has distinguished it.”). In this case, the court of appeals did not dictate the particular terms of an injunction, but instead—and consistent with its limited role under the abuse-of-discretion standard—reversed the district court’s denial of MercExchange’s motion for permanent injunctive relief and remanded for further proceedings. See Pet. App. 3a, 28a. This Court should affirm that judgment, which pre-



serves the district court's ample latitude to craft an injunction sensitive to the parties' (and the public's) legitimate concerns.

## II. THIS COURT NEED NOT OVERRULE ITS DECISIONS ADDRESSING WHEN AN INJUNCTION MAY ISSUE AGAINST A PATENT INFRINGER

The Court has directed the parties to address the additional question whether the Court should reconsider its past decisions, including *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908), that discuss the standards governing issuance of injunctive relief in patent cases. There is no warrant for this Court to overrule those decisions.

The Court's decision in *Continental Paper Bag* addresses the question whether a court may enjoin patent infringement when the patentee has "unreasonab[ly]" failed to practice its own invention. 210 U.S. at 429-430. After an extensive discussion, the Court ruled that an injunction should issue, concluding that the patentee's failure to practice its invention did not preclude it from enforcing its statutory right to exclude others from using its discovery. *Ibid.* The right to exclude others, the Court observed, is "the very essence of the right conferred by the patent, as it is the privilege of any owner of property to use or not use it, without question of motive." *Id.* at 429. Accordingly, the Court explained, a patentee will normally obtain equitable relief, at least in cases of continuing infringement, even if the patentee does not itself practice the invention. *Id.* at 430. Nevertheless, the Court's concluding statement left open the possibility that a case could arise "where, regarding the situation of the parties in view of the public interest, a court of equity might be justified in withholding relief by injunction." *Ibid.*

The Court's decision in *Continental Paper Bag* arguably contains questionable dicta that could be read to support an erroneous rule of automatic or nearly automatic injunctive

relief, but its central holding is sound. That holding, which the Court has repeatedly endorsed, is consistent with 35 U.S.C. 283, as well as with the collective experience of the federal courts in applying the principles of equity to patent disputes. See, e.g., *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 135 (1969); *Special Equip. Co. v. Coe*, 324 U.S. 370, 378-379 (1945); *Crown Die & Tool Co. v. Nye Tool & Mach. Works*, 261 U.S. 24, 34-35 (1923). Furthermore, the Court's holding is consistent with the Patent Misuse Reform Act of 1988, Pub. L. No. 100-703, § 201, 102 Stat. 4676, which makes clear that no patentee otherwise entitled to relief from infringement "shall be denied relief" merely by having "refused to license or use any rights to the patent." 35 U.S.C. 271(d)(4) (emphasis added). Cf. *Illinois Tool Works, Inc. v. Indep. Ink, Inc.*, No. 04-1329 (Mar. 1, 2006), slip op. 12-13.

As the Court's final observation in *Continental Paper Bag* makes plain, that decision does not announce any categorical rule *requiring* injunctive relief in all patent cases. See 210 U.S. at 430; see also *Special Equip. Co.*, 324 U.S. at 379; *Rite-Hite*, 56 F.3d at 1547. Rather, it preserves the equity court's traditional discretion to grant or withhold injunctive relief based on application of the well-established four-factor test, subject to review for abuse of discretion. The holding in *Continental Paper Bag* is accordingly consistent with the proper outcome in this case and should not be set aside.

#### CONCLUSION

The judgment of the court of appeals should be affirmed.

Respectfully submitted.

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